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Collor's crisis and the economy
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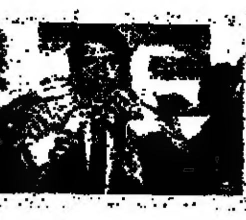

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Tomorrow's
Weekend FT
Tuberculosis makes a comeback

FINANCIAL TIMES

Friday July 3 1992 | EUROPE'S BUSINESS NEWSPAPER | D8523A

Spain questions production costs of Eurofighter

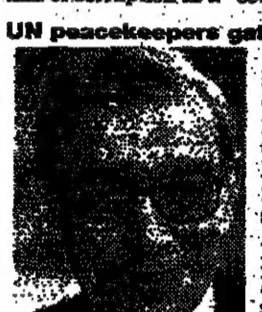
The European Fighter Aircraft project suffered another setback yesterday when Spain voiced serious doubts about the jet's production costs. Madrid's worries could undermine Britain's attempt to salvage the £20bn ($38bn) project, already jolted this week by Germany's decision not to go ahead with production preparations next year. Page 16

Algeria names new leader: Ali Kafi was named Algerian president in succession to Mohamed Boudiaf, assassinated four days ago. Background, Page 6

Olympia & York is set to abandon its role in a San Francisco development after defaulting on a $2m payment that was due this week. The project was to have been O&Y's next big showcase, involving a $1bn office block investment. Page 19

Collor hits at 'plotters': Beleaguered Brazilian president Fernando Collor attacked those accusing him of corruption as a "coup syndicate". Page 5

UN peacekeepers gather in Sarajevo:



UN secretary-general Boutros Boutros Ghali (left) was in London yesterday for talks on Yugoslavia with Lord Carrington, chairman of the EC's sponsored peace conference. As more UN troops reached Sarajevo, Mr Boutros Ghali said some 1,500 French, Egyptian and Ukrainian troops would be sent to secure the Bosnian capital's airport. Lord Carrington travels to Sarajevo today to discuss the resumption of peace talks. Page 16

Talks on Hong Kong airport: Top-level talks open in Beijing today to try to break the deadlock over financing Hong Kong's new HK$175.3bn ($22.7bn) airport. China was given financing details more than three months ago but has yet to respond. Page 6

Volkswagen, *Europe's biggest carmaker, is* asking UK motor component makers to bid for more business with the rapidly expanding German group. Page 17; Profits forecast, Page 18

GPA acts to avoid borrowings: GPA Group, the aircraft leasing company which backed out *of a planned $300m flotation last month, has* cancelled plans to buy its joint-venture companies which would have brought $1.2bn extra borrowings to its balance sheet. Page 17

Thomson-CSF: The French state-owned defence group is apparently poised to withdraw its $300m bid *for the missile operations of US steel group* LTV. Page 19

IRA kills three 'informers' The Irish Republican Army said it shot dead three men whose bodies were dumped on remote roads in Northern Ireland late on Wednesday. The IRA alleged the three were informers.

Cricket: Pakistan scored 388 for three on the first day of the third test against England at Old Trafford. Opener Aamir Sohail made 205.

Seles v Graf at Wimbledon: Monica Seles beat former champion Martina Navratilova 6-2 6-7 6-4 to reach the Wimbledon tennis final. She will face Steffi Graf, who won 6-3 6-3 against Gabriela Sabatini in the other semifinal. John McEnroe beat Guy Forget and Andre Agassi defeated Boris Becker in the men's quarter finals. Picture, Page 7

GEC AT THE CROSSROADS

General Electric, one of Britain's biggest and most successful companies, must make some difficult decisions. Who should succeed Lord Weinstock, the man who put the group together in the 1960s and still dominates it? How should GEC react to the end of the Cold War and the fall in defence contracts? With much of the group now in joint ventures managed by French or US partners, what should the parent company's role be?

After visiting GEC plants around the world, Charles Leadbeater explores these issues in a five-part series starting on Monday.

■ STOCK MARKET INDICES

FT-SE 100:	2,476.1	(−17.8)
Yield	4.92	
FT-SE Eurotrack 100	1,134.63	(+2.27)
FT-A All-Share	1,195.93	(−0.7%)
Nikkei	16,757.63	(+432.56)
New York lunchtime		
Dow Jones Ind Ave	3,336.98	(−17.12)
S&P Composite	411.80	(−1.28)

■ US LUNCHTIME RATES

Federal Funds:	3⅜%
3-mo Treas Bills: Yld	3.282%
Long Bond	104[illegible]
Yield	9.624%

■ LONDON MONEY

3-mo Interbank	9$\frac{13}{16}$%	(10$\frac{1}{16}$%)
Liffe long gilt future:	Sep 99$\frac{3}{16}$	(Sep 98$\frac{11}{16}$)

■ NORTH SEA OIL (Argus)

Brent 15-day (Aug)	$20.725	(20.55)

■ Gold

New York Comex (July)	$346.5	(344.3)
London	$346.25	(344.15)

■ STERLING

New York lunchtime:		
$	1.92835	
London:		
$	1.9175	(1.911)
DM	2.9025	(2.9)
FFr	9.77	(9.755)
SFr	2.605	(2.61)
Y	239.8	(238.75)
£ Index	93.3	(93.2)

■ DOLLAR

New York lunchtime:		
DM	1.5185	
FFr	5.0945	
SFr	1.3545	
Y	124.5	
London:		
DM	1.5135	(1.517)
FFr	5.095	(5.105)
SFr	1.358	(1.3655)
Y	124.65	(124.9)
$ Index	60.8	(60.9)

Tokyo close Y 124.45

Austria	Sch30	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR9.00
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L6000
France	FFr8.50	Kuwait	Fils.500	Poland	Zl 18,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

De Klerk accuses ANC of sabotaging talks

By Michael Holman and Philip Gawith in Johannesburg

SOUTH AFRICAN President FW de Klerk last night accused the *African National Congress of* sabotaging the peace process in a nationally broadcast speech which dashed hopes of an early resolution of the country's political crisis.

Mr de Klerk, delivering the government's response to ANC demands which it says must be met before stalled constitutional negotiations can recommence, accused the ANC of "fabricating an artificial crisis".

He said the reasons given by the ANC for withdrawing last week from negotiations for a post-apartheid constitution were "completely unconvincing".

The ANC's withdrawal, sparked by the massacre last month of 42 people at Boipatong near Johannesburg, was in protest against government intransigence in talks and continuing violence.

Mr de Klerk said the ANC *wanted to achieve the seizure of* power through mass mobilisation. He said the government would not tolerate such efforts and would "take all steps necessary for preventing the country from sliding into anarchy".

Mr Hernus Kriel, law and order minister, said later, however, that the government had not at this stage considered imposing a national state of emergency.

Mr de Klerk kept open the prospect *of continuing talks with the* ANC in an effort to find common ground on ways to end political violence, the issue which led to the current stalemate.

There was no immediate response from the ANC, but it had rejected an earlier offer of talks saying it was not prepared to meet the government until it met terms set out last week. These included an international inquiry into the Boipatong massacre.

Mr de Klerk offered to consider the creation of a joint monitoring body to deal with violence, in which the international community might play a role in a "observer capacity" – well short *of what the ANC has demanded.*

The ANC has alleged that government security forces were implicated in the attack. The government denies the accusation, and police yesterday announced *further arrests of residents of a* nearby hostel, a stronghold of Chief Mangosuthu Buthelezi's Inkatha Freedom Party, ANC's main black political rival.

A tough nut to crack, Page 6
Editorial comment, Page 14

US discount rate cut after sharp rise in jobless

By Michael Prowse in Washington and Peter Norman in London

THE US Federal Reserve *yesterday responded swiftly to* fresh signs of economic weakness by cutting the discount rate by half a percentage point to 3 per cent, the lowest level since 1963.

The move came shortly after the Commerce Department reported an unexpectedly sharp rise in the unemployment rate last month – from 7.5 per cent to *7.8 per cent, the highest level* since 1984. The rise in the jobless rate could be a severe political embarrassment for President George Bush, who yesterday welcomed the Fed's move but conceded the recovery was not as robust as he had hoped.

The Fed also signalled a half point cut from 3.75 per cent to 3.25 per cent in the overnight federal funds rate, the rate at which banks lend to each other. Leading commercial banks reacted by *cutting their prime lending rates* from 6.5 per cent to 6 per cent, the lowest level in nearly two decades. The prime rate influences the cost of a wide range of consumer and business loans.

Bond prices surged on Wall Street. By early afternoon the 30 year long bond was up by 1¼ points, pushing the yield down to *7.6 per cent. The Dow Jones* Industrial Average, after surging in previous days, retreated 15.52 points to 3,339.65, reflecting dismay at the poor employment figures. The employment news initially pushed the dollar down by 2 pfennigs to a 16 month low of DM1.4995. However, it later recovered in European trading to close in London at DM1.5135 against Wednesday's close of DM1.5170.

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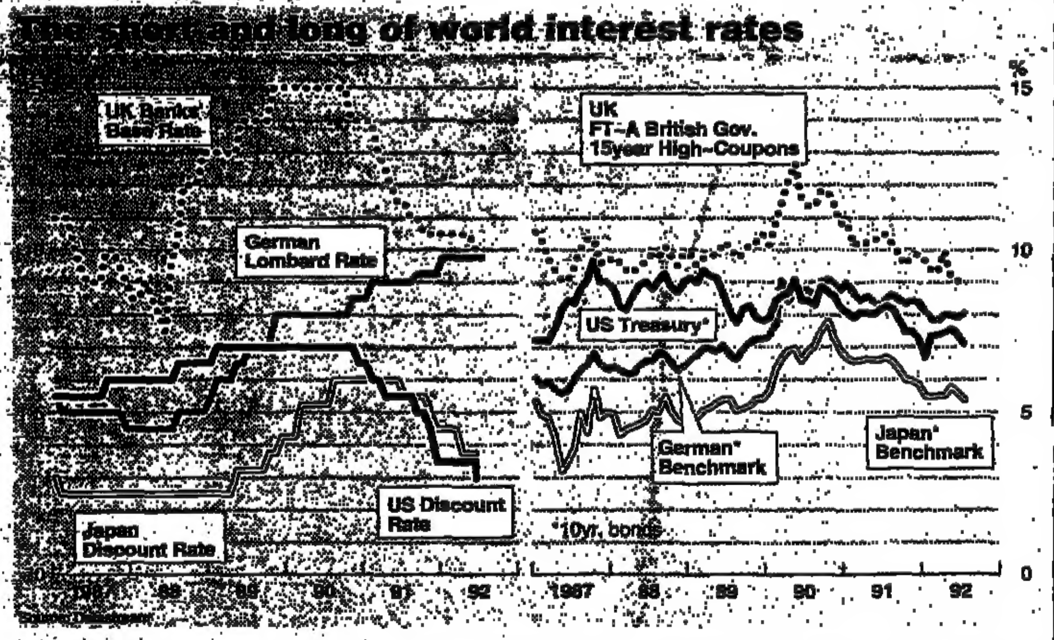


Maastricht goals can be achieved on time, he tells FT

Delors says he is treaty scapegoat

By David Buchan and David Marsh in Brussels

MR JACQUES DELORS last night protested at the way he had been blamed for the problems surrounding the Maastricht treaty and professed confidence that the treaty's goals would be achieved on schedule.

In an interview with the Financial Times, the European Commission president said: "I have become a scapegoat now. But when everything works people forget about me."

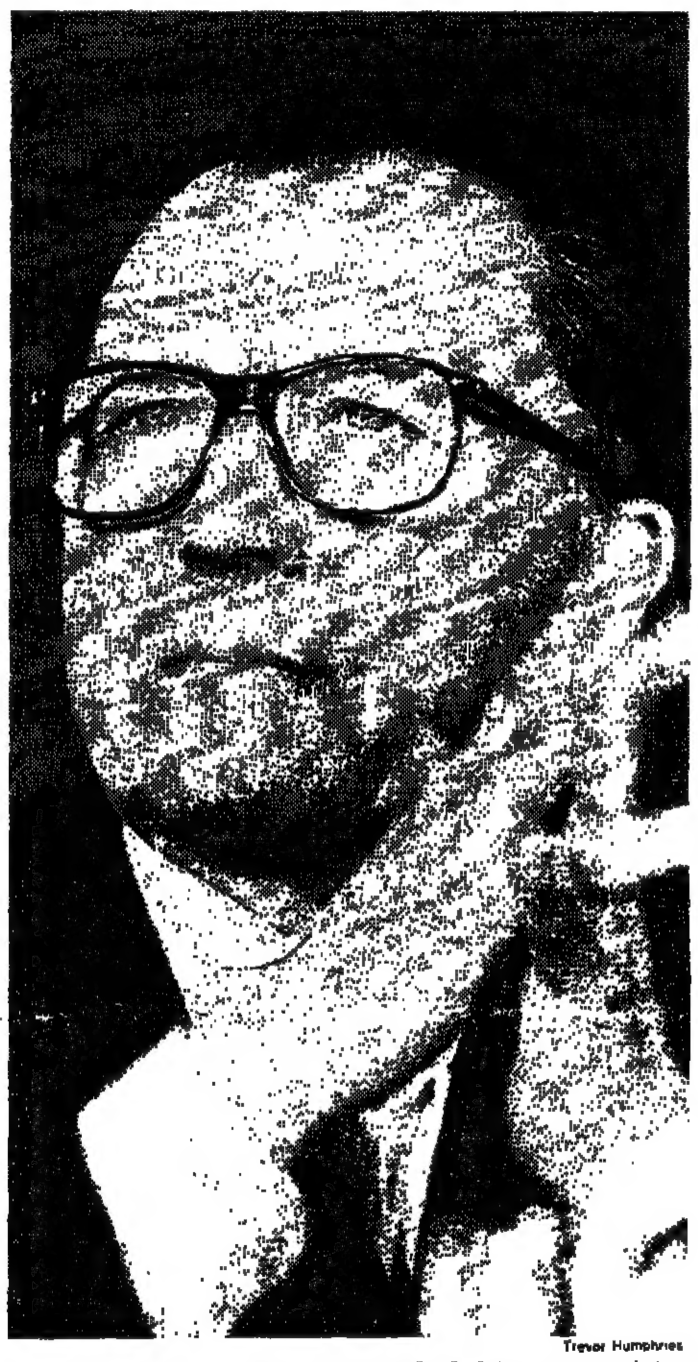
Mr Delors predicted that the 12 EC states would only be able to reach agreement on future Community financing on the basis of his compromise plan.

He strongly pressed the case for a large increase in aid for poorer EC countries to boost growth and help avoid a "deflationary" run-up to monetary union by the end of the decade.

This was one of two key elements in his compromise, which would have let richer states stretch out a 30 per cent increase in overall contributions to the EC budget over a longer period, provided they fulfilled their particular commitment to the less well-off countries. The absence of this commitment at the Lisbon summit sparked anger from Spain and led Mr Delors to withdraw his compromise.

Although Mr Delors said his proposals at Lisbon were not final, he saw little alternative to the next summit in Edinburgh in

Continued on Page 16
Major rejects attack, Page 7



Trevor Humphries

Jacques Delors: call to boost growth by helping poorer states

French government warns truckers over road chaos

By Alice Rawsthorn in Paris and Bethan Hutton in London

THE French government yesterday stepped up its efforts to end the lorry drivers' dispute as many main roads remained blocked, causing shortages of food, fuel and medical supplies across the country.

Mr Pierre Bérégovoy, the prime minister, warned the truckers, who are protesting against new rules to curb dangerous driving, that their licences would be suspended unless the roadblocks were removed.

Peugeot, the car company, blamed the dispute for its decision to temporarily lay off 12,000 workers at a factory in Sochaux-Montbéliard, because of a parts shortage.

In Britain, Peugeot Talbot, its UK subsidiary, said it had been forced to cancel a day's production at its two assembly plants near Coventry because of serious disruption in the supply of parts from France.

Workers on last night's shift and today's shift were told to stay at home on full pay. The company said production was expected to resume on Monday.

In France, petrol rationing started at some filling stations in Paris, Toulouse, Saint-Etienne and Lyons. Hundreds of tourists were trapped at Channel ports and at the borders with Spain, Italy, and Germany.

Seven police and one demonstrator were injured when police charged a demonstration by truckers and other workers at Cherbourg.

The government is today launching a special committee of inquiry into the new rules, whereby French motorists are awarded six points on their licences and lose points if they commit driving offences. Any driver losing all six points automatically forfeits his licence. The truckers say they should be allocated extra points because, as professional drivers, they spend longer on the road.

Mr Bérégovoy said the lorry drivers could make their case to the committee, providing the protest stopped. "We cannot negotiate while millions of tourists and millions of French people are being held hostage," he said.

The government yesterday made a concession, however, saying that information on speed and driving time contained in the "black boxes" installed in their cabs would not be used as evidence for alleged driving offences.

The authorities had limited success in persuading lorry drivers to remove roadblocks. A barricade of 800 lorries on the A6 motorway south of Paris dispersed yesterday morning and roads in Brittany were clear by lunchtime.

But truckers stepped up the dispute in other areas, concentrating on specific targets such as petrol depots. Two of the biggest depots in the Parisian region, at Val d'Oise and Gennevilliers, were sealed off by lorries.

Britain's Freight Transport Association described it as the "worst blockade ever experienced". There were reports of French nationals tampering with vehicles and turning off refrigeration motors, said Mr John Hix, of the FTA's international department.

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G7 likely to reject Soviet N-plant fund

By Peter Norman in London and Quentin Peel in Bonn

HOPES are fading of reaching agreement at next week's G7 world economic summit on a special $700m emergency aid fund to make safe 57 Soviet-built nuclear reactors in eastern Europe and the former Soviet Union.

Instead the seven industrialised nations are expected to decide on pressing ahead with bilateral programmes co-ordinated through the Group of 24 in the OECD.

That should go some way to meeting Chancellor Helmut Kohl's desire for "concrete action" to tackle what is seen in Germany as the single greatest threat to humanity from the collapse of the Soviet empire.

A G7 working group had recommended $700m to close, overhaul or re-equip a total of 57 Soviet-built nuclear reactors in operation, and a further 33 under construction.

The most urgent action is required at 15 Chernobyl-type RBMK reactors, and 10 VVER 440/230 reactors, all of which "should be shut down as soon as possible", according to the recommendation to the G7 leaders. Upgrading should be feasible at 32 more modern pressurised water reactors.

The fund foundered on strong US and Japanese resistance to a joint exercise, and doubts in Washington about allowing the European Bank for Reconstruction and Development to co-ordinate it.

● Mr Horst Köhler, state secretary at the German Finance Ministry, yesterday outlined the "phased programme" of support for Russian economic reform to be offered to President Boris Yeltsin at the G7 summit.

In the first phase, the club of western creditors would agree on debt rescheduling, and the IMF would advance a first $1bn credit tranche, in exchange for "an agreement or a declaration of intent" from the Russian government on precisely how it intended to reduce its budget deficit and bring inflation under control.

The second phase would involve the full IMF standby programme, which would inevitably take longer to negotiate. Only once that was in place would the west make available the promised $6bn rouble stabilisation fund as a third phase. A senior US official said Washington "wants to get this going bilaterally, because it will get money flowing. It would take a year if it were done in a bureaucratic way."

The Russian authorities have finally decided to stick to their initial plan of letting market forces determine a unified exchange rate for the rouble, writes Leyla Boulton from Moscow.

The change of heart – which follows last-minute arguments within the government and with the International Monetary Fund – strengthens the government's campaign to reaffirm its commitment to market reforms ahead of President Boris Yeltsin's meeting with G7 leaders next week. It also clears the way for an agreement with an IMF team, currently in Moscow, for a $1bn loan, for which a unified exchange rate was a condition.

A move away from meltdown, Page 14

Milan Panic plans return to Yugoslavia as prime minister

Carrington on way to Sarajevo

By Robert Mauthner, Diplomatic Editor, Laura Silber in Belgrade and David Buchan in Brussels

LORD Carrington, chairman of the European Community's sponsored peace conference on Yugoslavia will today travel to the besieged Bosnian capital of Sarajevo where he will hold talks with representatives of the republic's three ethnic communities. Moslem, Serb and Croat leaders have agreed to a meeting to discuss the possible resumption of peace talks, Lord Carrington said.

Officials said Lord Carrington would meet separately with President Alija Izetbegovic of Bosnia, Mr Radovan Karadzic, head of the Serb irregulars who have besieged Sarajevo for the past 88 days, and unnamed Croat representatives.

Sporadic fighting was reported in the capital yesterday as the first of 1,000 Canadian peace-keepers arrived to secure the airport.

The Pentagon said US military cargo planes would begin humanitarian flights from Germany to Bosnia today, joining an international relief effort for the besieged capital.

UN secretary-general, Mr Boutros Boutros Ghali, said yesterday some 1,500 French, Egyptian and Ukrainian troops will be sent to secure Sarajevo airport and take part in other peace-keeping activities in the Bosnian capital. Mr Boutros Ghali, said the troops would eventually replace Canadian forces.

In Vienna, Mr Roland Dumas, the French foreign minister, called for more UN troops to reinforce its peace-keeping efforts in former Yugoslavia and for increased humanitarian aid to the besieged Bosnian capital.

The European Commission yesterday pledged a further Ecus 120m in aid to help refugees in the Yugoslav civil war, and said that by the end of this month it would have stockpiled nearly 6,000 tonnes of food in Zagreb for eventual transport to Sarajevo.

Today the Commission will chair a meeting of officials from the Group of 24 industrialised donors in Brussels, to try to organise a total of $300m worth of food and medical supplies needed to tide the Bosnian capital over until September.

Meanwhile, an American businessman born in Belgrade yesterday confirmed he would return to Yugoslavia to become prime minister after Serbian President Slobodan Milosevic survived a wave of anti-government protests.

Mr Milan Panic, the chairman of the ICN pharmaceuticals company in the US, said in Washington yesterday that "his first goal was to stop the fighting in his homeland and work for lasting peace".

Serbia appears to be banking on Mr Panic to get the UN sanctions lifted and rescue Serbia from its international isolation. But diplomats based in Belgrade said sanctions would not be lifted until there was a change of policy.

"It is extraordinarily naive to believe that the sanctions will be lifted just because of Panic. The world will stick together on that," said the diplomat.

Mr Panic is supported by Mr Milosevic whose ability to remain in power and shrug off opposition has again been confirmed in the past few days.

Observer, Page 15

OECD raps Poland's knuckles

By Judy Dempsey, East Europe Correspondent

POLAND will be unable to reap the successes of its radical economic reform programme of 1990 unless it controls the budget deficit, defines property rights, and attracts savings and investment in order to create a viable capital base, according to the Paris-based Organisation for Economic Co-operation and Development.

In its first report on Poland the OECD praises the Polish authorities for pushing through several far-reaching reforms in 1990. These had the effect of eliminating shortages, converting the zloty, liberalising trade, opening up the private sector, and bringing inflation down from 600 per cent in 1989 to an annual rate of around 40 per cent in 1991-1992.

Yet despite this ambitious and courageous programme – the first to be implemented in eastern Europe – the OECD says successive governments have failed to build on it.

They have failed to introduce reforms to contain the budget deficit, which was 3.8 per cent of gross domestic product last year and will be about 5 per cent in 1992. Attempts to reduce the deficit, the OECD says, have been hindered by delays in reforming the tax system, as well as overhauling public expenditure.

"Certain expenditure programmes – pensions and housing in particular – contain within them powerful expansionary pressures... Further strong measures on both expenditures and revenues are likely to be necessary in 1992 and beyond."

The report also criticises current legislation on property rights for creating "considerable uncertainty". It cites the existence of at least 50 different laws, ranging from legislation governing agricultural land transfer, to urban land taxation. Foreign investors will continue to shy away from Poland until they are assured of ownership, use, and transfer rights in property, it warns.

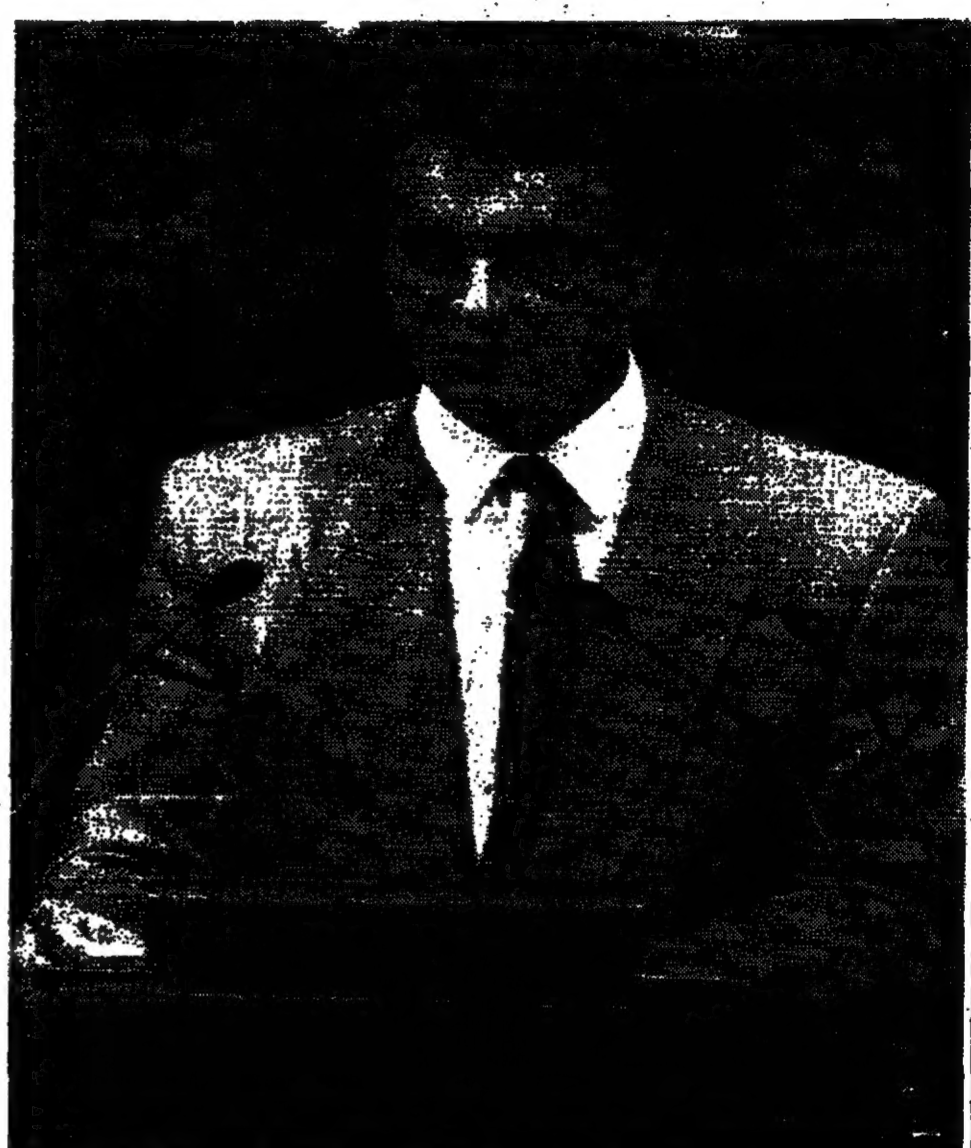
The issue of property rights – and restitution – has affected the pace of privatisation. The OECD praises the mass privatisation programme, which seeks to transfer ownership of 400 enterprises to investment funds whose ownership will subsequently be vested in the population through a share distribution. But delays and interference by the bureaucracy are hindering its implementation.

The Polish government is also taken to task for failing to tackle the problem of enterprises obtaining soft loans from other enterprises, or from banks. The persistence of this trend, typical of post-communist economies, coupled with a failure to adapt to market conditions, has meant that a third of Poland's 8,200 state-owned enterprises have reported pre- and post-tax losses in late 1991.

The failure to apply bankruptcy proceedings, and shortcomings in banking supervision, have hindered enforcing financial discipline on state-owned companies.

If the Polish authorities tackle these problems, foreign investment is likely to start flowing into the country. But the OECD warns Warsaw about the need to reassure investors on another level.

"What is needed, above all, is the confidence of the investors, which is fostered by stable 'rules of the game', consistency in carrying through stabilisation policies, and a minimum of bureaucratic intervention in investment decisions."



President Lech Walesa yesterday refused to accept the resignation of prime minister designate, Mr Waldemar Pawlak (above), to give him more time to build a parliamentary majority for his still unannounced coalition cabinet, writes Christopher Bobinski in Warsaw. Mr Pawlak (32), Polish Peasants' party leader, yesterday offered to step down after failing to agree with three pro-market groups, the Democratic Union, the Liberal Democrats, and the PPG, a business lobby, on the make-up of the government.

Bush says N-weapons outside US withdrawn

THE US has completed its promised withdrawal of all ground and naval tactical nuclear weapons based outside the US, President George Bush said yesterday, Reuter reports from Washington.

Nato said the US had informed it "of the withdrawal from Europe of its land-based stockpile of nuclear artillery shells, Lance missile warheads and naval nuclear depth bombs". The withdrawal included short-range nuclear weapons kept on US ships and attack submarines.

Aid for Bull

Brussels yesterday approved FFr6.6bn ($670m) in French government aid for Bull, the loss-making computer company, on the ground it would help make the company viable without giving it an undue boost over competitors, writes David Buchan from Brussels and Alan Cane.

The European Commission decided France's FFr4bn injection of capital in Bull, coupled with a FFr2.6bn R&D grant, constituted a state aid Brussels is empowered to control. Bull's plan to close seven factories, and new link-ups with IBM and NEC of Japan, "makes it reasonable to expect the company can become profitable without complementary aid", the Commission said.

Brussels posts

Brussels' cyclical game of musical chairs is under way, with the announcement yesterday that Mr Karel Van Miert will take over responsibility for the environment, until Rome names a commissioner to succeed Mr Carlo Ripa di Meana, appointed environment minister in Italy's new cabinet, writes David Buchan from Brussels.

In 1989, Mr Van Miert ended up with transport and consumer protection, but he may get environment in the next Commission. Most governments are expected to keep their present commissioners. But Mr Ionnis Palaiokrassas, Greek finance minister, will replace Ms Vasso Papandreou, who has run social policy.

Spain reform

EC nationals living in Spain could stand for municipal elections as early as October under a reform paving the way for Spain's ratification of the Maastricht treaty, officials said yesterday, Reuter reports.

The government will seek a special session of parliament to ratify the constitutional change. The tribunal recommended against holding a referendum on the amendment.

Vote in Senate backs Amato

By Haig Simonian from Milan

ITALY'S new government led by Mr Giuliano Amato passed its first parliamentary test yesterday by comfortably surviving a vote of confidence in the Senate, the upper house,

The decision came at the same time as renewed speculation against the lira in the foreign exchange markets, causing Bank of Italy intervention in support of the currency against the D-Mark, and the seventh consecutive day of losses on the stock exchange.

The Senate motion, which has to be followed by a vote in the lower house, due tomorrow, confirmed Mr Amato's government had failed to garner support beyond the four parties forming the previous coalition.

The government won backing from 173 of the 313 senators present, 16 votes more than the minimum majority required. But while Christian Democrats, Socialists, Social Democrats and Liberals supported Mr Amato, he was opposed by all the other parties, confirming the difficulties the new government will face in passing tough legislation to tackle Italy's budget deficit and to introduce institutional reforms.

Doubts about the government's ability to meet the challenges, particularly on the economic front, have triggered a renewed lack of confidence in the financial markets, heightened by devaluation fears.

Mr Amato's choice, announced on Sunday, of ministers at the key Treasury, Finance and Budget ministries, has evoked mixed feelings in financial circles. Dealers have been concerned that the appointments, particularly of Mr Piero Barucci, a banker, at the Treasury, represent neither the high-profile technocrats nor the experienced political heavyweights that many believe are essential to push through the unpalatable measures required.

Addressing the Senate, Mr Amato indirectly rejected rumours of an impending devaluation and said the new economics team would be at work from Sunday tackling the two immediate priorities of fighting inflation and keeping the lira steady.

Kurdish attacks follow Turkish security extension

By John Murray Brown recently in south east Turkey

KURDISH separatists killed six villagers in attacks on two villages yesterday.

The villages came under attack for their apparent loyalty to the Turkish government, according to local officials quoted by news agencies.

The attack adds to the escalating violence in recent weeks and follows last week's decision by the Turkish parliament to extend the state of emergency in the Kurdish region. The vote, 222 to 36, is clear backing for the security forces on policy towards the country's Kurdish minority and puts paid to prime minister Suleyman Demirel's reform programme aimed at winning back moderate Kurdish opinion.

Mr Demirel's approach envisaged a diplomatic and military offensive against the rebel Kurdish Workers Party (PKK), at the same time as economic and social reforms for the impoverished south-east region. On both counts, western diplomats say the prime minister is behind.

His first 200 days in office have seen an increase in the number of deaths in police custody and an unprecedented escalation in the fighting.

According to Mr Unal Erkan the super vali, the senior government official in charge of 10 emergency provinces, in the last two months more than 200 PKK rebels have been killed in clashes. Over the same period, around 90 security personnel have died.

On paper, this corresponds to the highest monthly death toll since the troubles began in 1984. But the military has an interest in inflating the casualty figures. Firstly, by exaggerating the rebel threat the military serves to justify its own heavy handed tactics. In addition the generals may have their eyes on a number of key military procurement contracts for helicopters and night-sighting equipment.

The military also has a stake in seeing the government's human rights reform delayed. The draft currently awaits President Ozal's signature. Legislators have already made a special case for the south east where a 16 day maximum detention period is to be applied for those suspected of terrorist crimes, twice the period elsewhere.

Human rights activists have long urged a reduction in the detention period as a way to combat the problem of torture, seen as a blight on Turkey's image abroad.

The government takes heart from having thwarted a popular uprising which the PKK threatened following Newroz the Kurdish New Year. But the repression that ensued had its cost.

According to local officials in Sirnak, where the PKK came close to overrunning the town, around 5,000 people have fled since the disturbances either to join the rebels or across the border into Iraq.

Tokyo looks for closer ties with a stronger Europe

On the eve of tomorrow's Japan-EC summit in London, Mr Tomohiko Kobayashi, the Japanese ambassador to the EC, gives his personal view of relations between the two

JAPAN and the European Community are both searching for a world role, and in this quest there is much they can do jointly to help each other.

This is the broad background to tomorrow's summit in London between Prime Minister Kiichi Miyazawa, Prime Minister John Major, the new president of the European Council, and President Jacques Delors of the European Commission.

The EC is, in timely fashion, heading towards its "single market", and with the Maastricht treaty, towards a real economic and monetary union, as well as the embryo of a political union enabling possible common foreign and security policies.

The road to this goal may be arduous and full of ups and downs, as Denmark's recent rejection of Maastricht clearly showed. But the EC has no choice but eventually to succeed in its titanic enterprise.

We Japanese are confident that, in spite of the strong reservations and sensitivities on the part of many Europeans about abandoning their respective national sovereignties, most of Europe's political, economic and intellectual leaders know this road is the realistic way of coping with serious challenges in the world of today and tomorrow.

They surely know that, only with the unification of Europe, can they be responsible leaders in managing world affairs and contributing to the stability and prosperity of others as well as their own.

This explains why so many European countries (even, most recently, Switzerland) have applied to join the Community.

Japan, too, is in search of a new role to play in this rapidly changing and highly unstable world. In the Asia-Pacific region, Japan intends to be a political stabiliser and stimulator of the regional economy. Worldwide, she is actively joining with her partners in the Group of Seven (G7) to manage major economic and political problems. Japan is even giving aid to Russia, which still continues illegally to occupy part of her territory.

But we know very well that, however economically powerful she may have become, Japan alone cannot assume heavy leadership responsibilities. In economic affairs, the world system rests essentially on a triangle described by the EC, Japan and the US. But we have to recognise that one side of this triangle – the EC-Japan relationship – is, or at least used to be, much weaker than the other two.

We need to consult each other more, not only on aid to Eastern Europe

Fortunately, both the EC and Japan have awakened to the need to change this. So, they agreed on July 18, 1991 to a joint declaration, inaugurating formally the new era of "sound competition and constructive co-operation" between the EC and Japan.

Since then, we have stepped up our dialogue with the EC in many areas ranging from nuclear energy, science, technology, telecommunications, industrial management, to development aid and protection of tropical forests. Of increasing importance is our "political dialogue" with the EC, in regular meetings between foreign ministers and their leaders. Tomorrow's meeting will be the second of what are now to be regular annual summits.

Indeed, we need to consult each other more, not only on aid to Eastern Europe and the Commonwealth of Independent States but also in other areas.

Japan welcomes the EC's growing political role in the world, and wants to impress on the EC the need to consider the problems of security worldwide, paying more attention to North East Asia and the Asia-Pacific region. The EC should understand that, while communist totalitarian regimes have disappeared in Europe, remnants of Stalinism are still strongly present in Asia, as evidenced by continued Russian occupation of our northern territories.

We wish to see the EC more involved in our region, and as a first step we welcome the EC's involvement in our efforts to arrange international help for Mongolia and Cambodia.

We cannot find any quick remedies to the structural trade imbalance problem

Noticeable progress has been made in promoting business co-operation between the Keidanren and Unice, the employers' federations of Japan and Europe, as well as at a sectoral level in consumer electronics and cars.

Two-way investment is increasing, particularly by EC companies in Japan, though it is still small ($3.5bn at end-1990) compared to Japanese investment in the EC ($59.7bn by mid-1991). Japanese manufacturers are doing their best to become welcomed as "corporate citizens" of Europe, contributing to employment and technological progress.

But one serious problem remains – the trade imbalance. After marked improvement in the late 1980s, the EC's trade deficit with Japan began to increase again, mainly due to Japan's economic slowdown and Germany's unification boom.

In 1991, the imbalance amounted to around $80bn, although Japan imports more per capita ($260) from the EC than the Community buys per capita ($180) from Japan.

In the conclusions recently adopted by the EC Council of Ministers, the European Community has placed this problem in a balanced global context. Our headache is that, with the best of intentions and efforts, we cannot find any quick and short-term remedies to what is largely a structural problem.

The Japanese government is doing its utmost to ease the problem – by taking fiscal measures to boost domestic demand, by introducing new incentives for foreign investors and traders in Japan, by enhancing competition policy to give newcomers easier access to the market. We strongly hope these measures will bear fruit. In the meantime, we are ready to make every effort not to hurt, unduly, our European competitors – the "car arrangement" is just one example. We want a really "harmonious symbiosis" with the EC economy. At the same time, we hope for the disappearance this year of some 49 humiliating quotas applied by certain EC states specifically against Japanese products.

Our relations with US are of vital importance to us both. But in this turbulent world, the EC and Japan which share the same value system of democracy, human rights and market economy need to strengthen ties of active co-operation with each other.

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NEWS: WORLD TRADE

EC boost for private sector export credit

By David Dodwell, World Trade Editor

PRIVATE sector insurance companies are to wrest short-term export credit business in the European Community from state-backed insurers, according to proposals to be presented in two weeks to the EC Council working group on export finance.

The proposals, expected to come into force before the beginning of the European Single Market in January next year, are intended to create a level playing field for exporters inside the EC by removing distortions in export credit terms arising from government subsidies. Government export credit insurance would be confined to the underwriting of non-commercial "political risk" business.

The reforms could lead to a significant expansion of private sector involvement in providing export credit insurance. They are controversial because many state-backed insurers use the profits usually generated from insuring short-term trade to subsidise losses often arising from insuring medium- and long-term business.

They are expected to increase the cost of short-term export credit cover, particularly to small companies. They are also expected to lead to pressure inside the OECD for Japan, the US and other leading industrial countries to follow suit.

Companies like NCM, the Dutch insurer that bought the short-term credit arm of Britain's Export Credits Guarantee Department late last year, have naturally welcomed the proposed change.

The main resistance has come from Germany, Italy and France, where state-backed *companies control effective* monopolies on providing export credit insurance.

The new regime will apply to "marketable risk", on contracts of up to two years. It will include both political and commercial risk cover on exports to member states of the EC, or other highly credit-worthy countries like the US, Japan or Sweden, but will continue to rely on government-backed reinsurance for political risk in smaller or more volatile markets.

"We plan to start more narrowly, and widen the scope of commercial involvement when the market has caught up with any problems," said Mr Allan Dalvin, head of the division for export credits and export promotion in the EC's external relations directorate.

"We expect most countries to criticise certain areas of our proposals, but to be in favour with the general approach," he said. "Those that have already gone a long way on commercialising will want to go faster."

The EC pinpoints four main distortions that have prevented private insurers from competing with state-backed organisations in providing export insurance: *state guarantees or loans*; free information or facilities; tax exemptions in many forms; and monopoly control of reinsurance.

Russia will soon clamp down on companies to stop them wasting valuable export credits, Mr Pyotr Aven, the foreign trade minister, said in an interview yesterday, Reuter reports from Moscow.

"We plan to change the system of distributing investment credits fundamentally. We will not allow people to spend hard currency on technical equipment which later disappears," he told the daily Trud newspaper. Over the last 20 years foreign machinery worth many *millions of dollars* has been imported and either left to rust or been stolen.

He said vetted companies would only receive credits by bidding for them at auctions.

Hopes rise for early Nafta deal

By Damian Fraser in Mexico City and Nancy Dunne in Washington

A US-MEXICAN summit will take place in San Diego, California, *on July 14, fuelling* speculation that the countries' leaders will choose this day to wrap up the North American free trade agreement (Nafta).

President Carlos Salinas of Mexico said in an interview that "in the next weeks [the treaty] should finish and be initialed".

According to US law, the treaty can only be signed by US President George Bush 90 days after he has notified Congress of this intention. Mr Salinas said that at the moment the plan was to sign the treaty, and present the agreement to the US Congress before the November elections.

However, the Mexican government has throughout the last year consistently under-estimated the time it would take to complete the negotiations. After the treaty is initialed, it has to be examined by US private sector advisory committees. Only after they have issued reports on the treaty can Mr Bush notify Congress of his intention to sign the treaty.

EC may act on Korean chip dumping

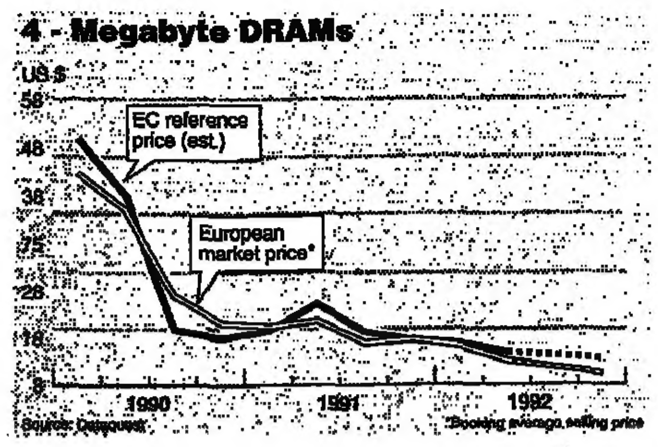
Samsung, Hyundai and Goldstar could face restrictions, writes **Michiyo Nakamoto**

THE EUROPEAN Commission is considering possible anti-dumping measures against three Korean manufacturers of semiconductors after recently concluding a preliminary investigation into charges that the companies *had been dumping memory* chips into the EC.

The commission said it has notified the parties involved of the findings of its investigation into the dumping charges brought two years ago by the European Electronic Component Manufacturers Association (EECA).

The charges were against Samsung, Hyundai and Goldstar of Korea, and Intel of the US, which supplied memory chips manufactured by Korean companies that were bought by the EECA on behalf of Siemens, the German electronics group, an EECA representative said.

Although the commission will not make the results of its investigation public until inquiries are completed, it said that discussions with the parties concerned over possible measures to be taken were being complicated as one of the *Korean companies was disputing* its findings. Meanwhile, Intel says that the commission has accepted that the US company was not involved in exporting the chips. The Korean anti-dumping case, which remains unresolved two years after the charges were brought, highlights the difficulty of trying to apply the outdated anti-dumping guidelines of the General Agreement on Tariffs and Trade (Gatt) to an industry that is rapidly evolving.



The EC's own anti-dumping regulations are based on Gatt guidelines, which are more than 20 years old.

The case also underlines the dilemma that the commission faces over possible anti-dump*ing action as it attempts to bal*ance the demands of Europe's semiconductor manufacturers and users. The Europeans claim that the Korean manu*facturers have been selling* dynamic random access memory chips (DRAMs) into the EC at prices lower than those charged in their home market.

However, trying to determine whether dumping has occurred – according to Gatt guidelines – involves a very complicated and time-consuming process.

"The Gatt guidelines are old-fashioned and out of date," says Mr Byron Harding at Dataquest, the high-tech market consultancy.

They were set down 23 years *ago when the electronics* industry was very different. For example, manufacturers can now set up facilities throughout the world, making it very difficult in some cases to determine country of origin of products.

The method the commission employs to determine dumping also leaves the findings open to debate, says Mr Harding. For example, the commission will *consider even a 1 per cent* price differential as substantial enough to determine that dumping has occurred. But a manufacturer could argue that a 1 per cent price differential was merely the result of a technical difference.

While the options for action that are open to the commission are restricted by the Gatt *guidelines, European users of* semiconductors have been unhappy with the measures the EC has taken.

These include imposing anti-dumping duties or obtaining voluntary undertakings not to sell products in the EC below a certain floor, or reference, price. These undertakings are backed by residual anti-dumping duties.

In the latest anti-dumping case, the Commission suspended anti-dumping duties against 11 Japanese manufacturers which were accused of *dumping DRAMs* and erasable programmable read-only memories (EPROMs) in return for the Japanese agreeing reference prices. This was partly after consideration of the interests of European semiconductor users, a Commission official said, as imposing anti-dumping duties on Japanese-made DRAMs would raise their costs and hurt their competitiveness.

However, reference prices still add to the costs of European semiconductor users.

Although DRAM prices have been falling in world markets for years they have been held up in Europe due to the Japanese DRAM reference price, Mr Harding says.

For the Koreans, a Japanese reference price combined with *aggressive marketing on their* part, is likely to have helped to increase their share of the European market.

Samsung for one raised its European market share by nearly 40 per cent last year. The share of Korean manufacturers of the worldwide 4-Megabit DRAM market also rose strongly last year to over 13 per cent from just under 5 per cent in 1990, according to Dataquest.

Having to agree a reference price would therefore be a blow to the Koreans who will *have to rethink* their strategy and may even have to consider setting up a DRAM facility within the EC, says Mr Harding.

NEWS IN BRIEF

US denies G7 talks will finalise Gatt pact

By Jurek Martin in Washington

THE US does not expect next week's Group of Seven economic summit in Munich to finalise a new Uruguay Round trade agreement under the General Agreement on Tariffs and Trade (Gatt).

A senior US Treasury official said yesterday there had been "substantive changes" in the agricultural policies of both the US and the European Community, and he held out the hope of a settlement in the months ahead. "We will bang on with this, and it will get done," he emphasised.

But he warned against "a political papering over" at Munich of the real differences that still existed between the two sides. It would also be "not realistic" for the US to enter into an agreement that could not be sold to the US Congress. He noted that the EC had not yet served the US with its final proposals.

He conceded there was "a perceptional problem" in the continued inability of the US and the EC to break the Gatt logjam, given the annual summit commitments to fight against protectionism. But he insisted that summits were not the right forum in which to settle highly technical problems.

Davy wins Utah smelter contract

Davy McKee, part of the engineering division of Trafalgar House, and Fluor Daniel of the US have been awarded a contract for the engineering and construction management of a new $600m (£324.3m) copper smelter in Utah, writes Andrew Baxter.

The client is Kennecott, owned by RTZ of the UK, which is spending $880m on the new environmentally-friendly smelter and refinery at its Utah Copper operations near Salt Lake City.

Although Davy would not disclose its share of the 50/50 contract, the deal is one of its biggest since the takeover last year by Trafalgar House, and one of Davy's biggest US contracts for some years. The equipment is likely to be sourced in the US.

ABB in Philippines power deal

A consortium led by ABB Asea Brown Boveri, the Swedish-Swiss power engineering group, has won a $300m (£162m) contract from the Philippine National Power Corporation to build a 300-megawatt combined cycle power station at Limay Bataan, near Manila, writes Ian Rodger in Zurich.

ABB said its portion of the Japanese financed contract was worth more than $110m. It will supply the plant's control system plus three gas turbines and one steam turbine and has signed a 15-year contract for the operation and maintenance of the plant. Its consortium partners, Marubeni and Kawasaki Heavy Industries, will look after civil engineering and other aspects.

Argentina plans car export drive

Argentina's six car and truck manufacturers plan sharply to increase exports to about $650m (£351.3m) a year and invest $1.5bn over the next three years as part of a mandatory investment and modernisation plan, writes John Barham in Buenos Aires. Six months ago, the government told the companies it would relax import barriers as part of a new export-oriented policy. It also instructed manufacturers to draw up detailed investment plans showing how they would adapt to liberalisation. The policy includes requirements for each company to run a positive trade balance by 1994, reduce its range of models and concentrate production on modern vehicles for export.

Turkey to seek Arab financing

Turkey is to seek Arab finance to establish a regional development bank to service the Black Sea and Central Asian states after last week's framework economic agreement signed in Istanbul. Turkey's proposal envisages a bank providing insurance cover and a settlement mechanism for trade between Turkey, Greece and Albania and the eight former communist states around the Black Sea: Russia, Ukraine, Moldova, Georgia, Romania, Bulgaria, Armenia and Azerbaijan. Mrs Tansu Ciller, Turkey's chief economics minister, said Turkish officials would visit Jeddah, Saudi Arabia, today to sign an agreement with the Islamic Development Bank.

Agreement focusing on job security will go to employees for ratification

AT&T agrees three-year pay deal

By Nancy Dunne in Washington

AT&T, the world's largest communications company, yesterday announced tentative agreement with its two unions which gives employees pay rises of up to 11.8 per cent over three years, stock shares and a generous compensation scheme for laid off workers.

The agreement, coming after a month of negotiations with federal mediators, is subject to ratification by about 125,000 AT&T employees.

The unions – the Communications Workers of America and the International Brotherhood of Electrical Workers – this year chose not to strike when the deadline for settlement passed on May 31 but to use other means to pressure the company. Their strategy was to urge other unions and small businesses to switch to other long-distance telephone companies.

With AT&T due to cut 6,000 more jobs – in addition to 133,000 lost since the sell-off its regional operations – job security was a main concern. The company agreed that employees declared "surplus" can choose to take special unpaid leave of up to two years to pursue career or personal interests while the company pays all benefits, including tuition assistance.

Those with at least five years of service can be referred to temporary jobs in the company with no loss of pay for two years.

AT&T also agreed to establish a stock ownership programme, which would award stock worth $3,300 (£1,780) in two instalments over the next three years. With the union demanding pay increases of 13 per cent over three years and the company offering 8 per cent, a compromise 11.8 per cent was agreed with mediators.

Pensions are to be increased by 13 per cent. Former employees will get first call on new jobs for three years. Family health benefits were expanded, and AT&T said it would give employees a greater voice in decision-making.

Mexico and US settle kidnapping dispute

By Damian Fraser in Mexico City

MEXICO and the US have resolved their diplomatic rift over the US Supreme Court ruling that the kidnapping of a Mexican murder suspect was legal, with President George Bush promising in a letter that his administration will not engage in such practices again.

However the promise falls far short of what the Mexicans had sought. The US refused to return the suspect, Dr Humberto Alvarez Machain, to Mexico.

It will neither revise the wording of the two countries' extradition treaty nor exchange diplomatic notes that would in effect outlaw kidnapping beyond the life of the Bush administration.

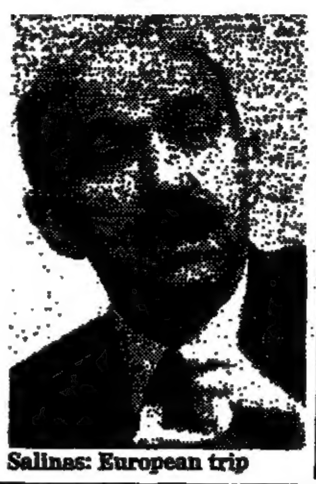
Instead the US and Mexico will exchange diplomatic notes that makes kidnapping by private US citizens an extraditable offence. This would allow US federal, state and other government employees to kidnap foreign nationals without fear of sanction. This will have the effect of reinterpreting the treaty.

President Carlos Salinas was earlier this week still fuming at the court's decision, describing the kidnapping as a "criminal act... unacceptable and inoperable in Mexico, and totally outside international law". The Mexicans will take the case to the International Court of Justice in The Hague, whose final decision, however, will not be binding on the US.

The Mexican government almost certainly decided to settle differences with the US over the kidnapping of Dr Alvarez Machain so as not to jeopardise negotiations over a free trade agreement which is now being negotiated between the two nations and Canada, and to avoid further downward pressure on the Mexican stock market.

The market fell sharply in June, partly because of the popularity of Mr Ross Perot, the independent US presidential challenger – which has put the re-election of Mr Bush, and therefore the future of Mexico-US relations, in some doubt – but has recovered a little this week.

Mr Salinas will visit the UK, France, Spain and Hungary this month, and explained his European trip in this context. "When you decide to have a more intense relationship with a neighbour so powerful, you need to become closer with distant friends... I want more European investment with Mexico, precisely because we are going to have a more intense relationship with the US."



Salinas: European trip

Third Chicago airport plan 'dead'

By Barbara Durr in Chicago

MR Richard Daley, the mayor of Chicago, has declared the project to build a third big airport in the city "dead."

The Illinois Senate defeated legislation to allow work on the $10.8bn (£5.8bn) airport proposal, for which Mr Daley has fought for nearly three years. It was to have been the largest public works project in the US, creating 200,000 jobs.

Many believe, however, that Mr Daley, who often expresses his frustration in public, is likely to take the project up again in the legislature's autumn session. Mr Jim Edgar, the Republican state governor who favours the airport, hopes Mr Daley, a staunch Democrat, will not give up.

In a reference to the powerful political machine once run by Mr Daley's father, who as mayor from 1955 to 1976 was the last of America's big city political bosses, Mr Edgar said: "You just don't make a phone call any more and have these things happen."

Mr Edgar was unwilling to spend all his political capital rallying his party's senators behind the airport.

Fed rate cut: the rationale and the risks

Michael Prowse discusses the pressures behind the move

IN a perverse way, Mr Alan Greenspan, the Federal Reserve chairman, must have been relieved that the June employment figures released yesterday were so awful. He was under intense pressure to cut rates for two reasons:

- to give the lacklustre economic recovery a bit of pep ahead of November's election and thus improve President George Bush's chances of re-election, and
- to let treasury secretary Nicholas Brady take to next week's economic summit in Munich clear evidence of a US commitment to global economic growth.

In the event, the employment numbers were bad enough to give plausibility to the Fed's claim that it eased policy in response to poor domestic economic conditions. Financial markets had expected a rise in non-farm employment of about 80,000 and no change in the unemployment rate, but employment plunged by 117,000 and the unemployment rate jumped to 7.8 per cent, its highest since 1984.

The details of the report were almost uniformly gloomy. The fall in jobs partly reversed three months of modest gains and would have looked worse but for a rise in public sector employment; non-farm private jobs fell by 142,000. Manufacturing and construction employment fell 58,000 and 32,000 respectively. Wholesale trade fell by 16,000. Much of the retail sector was also weak. Services as a whole were flat.

The report also followed a series of gloomy statistics pointing to flagging growth after a surprisingly robust expansion at an annual rate of 2.7 per cent in the first quarter. Signs of weakness included:

- Consumer confidence stalling in June after modestly rising in recent months, the level of confidence remaining far below what is normal in a vigorous recovery;
- The Purchasing Managers' Index falling last month to 52.8 per cent, remaining above 50 per cent and indicating that manufacturing is not yet contracting but nowhere near the level expected after a year of faltering recovery;
- Sales of existing homes, following weakness in housing starts, falling more than 5 per cent in May to register their fourth consecutive monthly decline; and
- New orders for manufactured durable goods falling 2.1 per cent in May, following declines of 1.8 per cent in April and 2.1 per cent in March.

Growth in the first quarter was buoyed by a strong rise in consumer spending just after Christmas. After a lag, this prompted higher industrial production and a small rise in employment. However, the stimulus from consumers was temporary and the risk is that the economy has now entered another mini-downturn.

The Fed is easing to prevent such a downturn from gathering momentum. It cited the "uneven progress of the recovery" and also drew attention to "sustained weakness in credit and money growth" and "continued movement toward price stability".

The seven Fed governors voted unanimously for the half-point discount rate cut to 3.0 per cent. This was the first cut since December and the seventh since the recession began in July 1990. The discount rate is now at its lowest level since the summer of 1963.

The Fed then signalled a half-point cut to 3.25 per cent in the overnight federal funds rate – the rate at which banks lend to one another. Commercial banks responded quickly, cutting their prime lending rates from 6.5 per cent to 6.0 per cent. The prime rate influences the cost of a range of consumer and business loans.

The Fed's move will be seen by some as a decisive reaction to renewed signs of economic fragility. It is well aware that, had it cut rates more quickly last year, it might have prevented a weakening of the economy in the fourth quarter, when growth drooped to a disappointing 0.4 per cent at an annual rate.

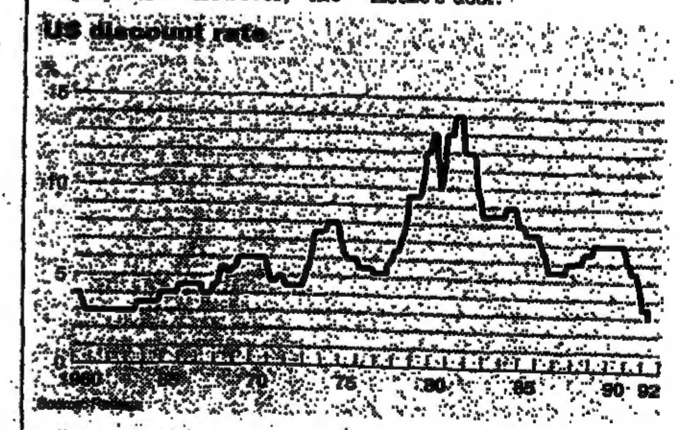
Policymakers outside the US, however, may wonder if the Fed has acted rashly. After all, the economy has been advancing for four quarters, albeit slowly. Few if any forecasters expect output to fall. In a sluggish upturn, the economic statistics are likely to be choppy: too much should not be read into a single month's disappointing figures.

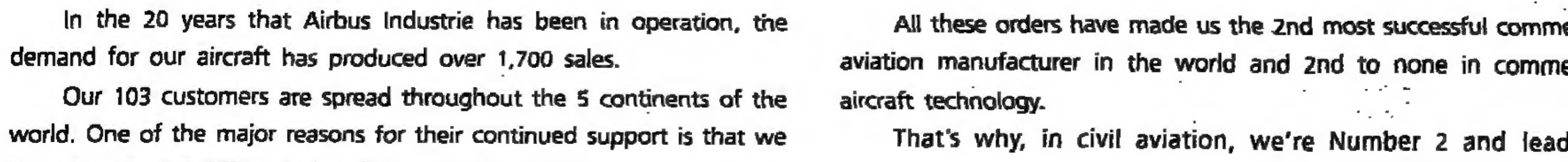
And while inflationary pressures are abating, the maturity structure of US interest rates hardly suggests financial markets are confident that inflation is licked. Even after the surge in bond prices yesterday that followed the Fed's announcement, the yield on 30-year bonds was still 7.6 per cent, more than four percentage points higher than short-term rates.

The long-run impact of the Fed's rate cut will depend greatly on the response in bond markets. If the Fed is correctly responding to genuine weakness, long rates should fall further, with beneficial effects on sectors such as housing and consumer durables.

But there is a risk that the Fed has made the classic central banking error of easing policy when the economy is already capable of recovering under its own steam. If this proves the case, much of the blame will lie at the White House's door.

US discount rate





NEWS: AMERICA

Collor corruption crisis throws reforms off course

By Christina Lamb in Brasilia

THE temperature may have cooled a little in Brazil but the future of its first popularly elected president for 30 years still hangs in the balance. Described as "a victim of his own democratic reforms", the ability of President Fernando Collor to lead the country out of economic crisis is now severely hampered.

The wave of allegations against the charismatic 42-year-old president initiated by his younger brother Pedro in May, draws on a cast of family, friends and aides in a real-life saga of tropical powerbrokers and sibling rivalries. Whatever the truth of charges that the country is being run by a gang of thieves, the political crisis in the world's eighth largest economy has been compared to that of 1954 when corruption allegations drove President Getulio Vargas to suicide.

Elected on an anti-corruption platform, Mr Collor had earlier sacked several ministers for corruption and his wife had been forced out of a government charity amid allegations of wrongdoing. While "Collorgate" almost brought down his administration, the evidence against the president rests on the testimony of a driver, a few copies of cheques paid into his secretary's account and a telephone bill showing frequent calls to his office by an allegedly corrupt businessman who was his campaign treasurer.

The problem is not confined to the administration. Officials estimate tax evasion at 7 per cent of GDP.

Mr Collor's colleagues claim that the real motivation behind Collorgate is resistance to his modernisation programme, particularly the dismantling of cartels and opening the economy to foreign competition.

A political outsider, Mr Collor's arrogance in office and initial insistence that he could govern without recourse to traditional porkbarrel politics or appeasing the powerful business community, has left him isolated among the elite even though public opinion may be on his side.

Ironically the extensive press freedom under the new democracy has worked against Mr Collor. "The press is not only investigating but condemning – it's a witch-hunt," rages one minister. "Instead of praising him as the first president to allow police investigation into a minister they are using it against him."

While other Latin American leaders have been able to rely on a one-party state, a strong majority or even dictatorship, to push though reform, Mr Collor's party holds only 31 out of 503 Congressional seats. So fragmented is Brazilian politics that there are 18 parties in Congress. While other countries are disbanding communist parties Brazil recently formed its third.

Unable to muster political support for crucial fiscal reform, he has been forced to rely on monetary policy as his only weapon against inflation.

It was for this reason that, to public approval, Mr Collor sacked his cabinet in April, appointing well-known politicians from the Liberal Front (PFL) whom he had criticised.

Within a month claims by his brother that his campaign manager was involved in corruption with the president's blessing and that he was a cocaine addict had plunged the country back into crisis. This worsened last week as new testimony emerged.

Today the only stabilising factor is Mr Marcilio Marques Moreira, Mr Collor's morally upright Economy Minister. Despite his popularity, Mr Moreira's ability to act is shackled by political paralysis. Far from falling, inflation is stuck around 20 per cent a month.

Mr Moreira rules out the magic tricks which have characterised recent Brazilian economic management, insisting on the orthodox route of fiscal reform which in Brazil would involve constitutional revision. However, approval by Congressmen for a fiscal reform which cuts at their privileges is unlikely with municipal elections due in October and the corruption inquiries providing them with a welcome diversion, weakening the President's ability to force reform.

Mr Collor insists he will not resign. But the opposition has not relented and his future now hangs on whether further concrete evidence surfaces in the congressional inquiry under way in Brasilia. The military has said it would not interfere.

If he is forced out, the reform programme is likely to collapse with him. Under the constitution, Mr Itamar Franco, the vice-president would take over. He is a strong opponent of reforms such as privatisation.


Collor: victim of his own democratic reforms

Deal on foreign debt: so near and yet so far

By Christina Lamb and Stephen Fidler

ONLY MINOR points separate Brazil and its leading bank creditors from an agreement in principle on restructuring $40bn (£21bn) of medium-term foreign debt. However, the government's political crisis has raised questions whether the deal will ever be completed.

Agreement on a Brady-style debt reduction deal had originally been hoped for in April, but became bogged down over the guarantees banks would be offered.

Last week, in an attempt to speed negotiations, Mr Marcilio Moreira Marques, economy minister, flew to New York to meet bank negotiators. Afterwards, he said: "Our positions are converging and we expect an agreement within weeks if not days."

Since then, a new wave of corruption allegations has surrounded President Fernando Collor. Even if he stays in office, will he have the political clout to push the deal through?

For Brazil, an agreement would help offset a darkening political and economic picture. But some creditors are less certain. One group favours a quick agreement, hoping it will bolster Mr Moreira – without whom they may have to start negotiations from scratch – and aid a government sorely in need of confidence. Some big US banks want a deal to be able to write back provisions and to avoid being held responsible for the minister's possible demise.

Others, particularly European and Japanese bankers, say an agreement amid so much uncertainty would be pointless and raise doubts about Brazil's ability to meet terms of any deal.

"At some point, one of these Brady deals will fail. The question is whether it will be Brazil's," said one US banker. Argentina is the next Latin American state in line to secure a Brady accord – its detailed accord with leading banks must now gain approval from all creditors – but Mexico, Venezuela and Costa Rica have all secured theirs.

According to Mr Moreira, his meeting with the banks overcame two main obstacles. The two sides agreed on a figure of $3.2bn for the collateral to be used initially to guarantee the concessional bonds to be issued under the accord. They also agreed that banks should be free to choose how to change their debt into the six types of bonds on offer, but gave Brazil the right to assess the feasibility of the deal after the selection has been made.

Mr Moreira says the remaining sticking points are "minor".

The Brazilian accord is the most complicated of all the Brady debt reduction deals so far, in both negotiation and execution. The waters are muddied by the rapid collapse of the previous restructuring in 1988 and Brazil's partial moratorium on interest payments since 1989.

There are six options to banks compared with two in the Argentine deal. It is also possible – depending on US interest rates and the mix of options the banks choose – that the guarantees will have to be phased in, instead of all being available at the start as in the other Brady deals.

Brazil is expecting to raise $1.6bn from multilateral institutions and new money from the banks, with almost half of this coming from the World Bank. But a senior World Bank official said: "There is no way we will give money to Brazil until it gets its macroeconomic situation in order and we see no signs of that at present."

The country is again expected to miss the fiscal targets laid down in its accord with the International Monetary Fund for the quarter that ends this month and it is becoming increasingly difficult for Mr Michel Camdessus, the IMF president, to sustain the agreement, despite his close personal relationship with Mr Moreira and his continued warnings that "Brazil is too big to fail".

Home truths about Brazil's real debt problem

By Stephen Fidler and Christina Lamb

AFTER years of crisis over Brazil's foreign debt, there are now growing worries that a more serious debt problem may lie at home.

Even before President Collor was enveloped by crisis, some economists feared the government's domestic debt might soon be out of control. By pushing up interest rates, the crisis heightens these concerns.

Even by the government's own conservative estimates, the interest bill will be $21bn this year.

Federal debt in the form of domestic bonds grew 182.7 per cent between last September and March: future growth depends on what happens to domestic interest rates. High real interest rates are the main weapon in the government's fight against inflation, but they dramatically raise the cost of servicing domestic debt.

Unless real interest rates come down – ideally by the passage of fiscal reform through Congress, which would reduce the burden on monetary policy – the government sooner or later will find it impossible to service ballooning domestic debt.

This cost has caused Brazil to fail to meet the first quarter budgetary targets of an IMF standby agreement.

Servicing internal debt will, the government says, cost 4.8 per cent of GDP this year. But analysts say this is optimistic as it assumes inflation will fall, and it has not so far.

A study by Mr Mailson da Nobrega, a consultant and former finance minister, warns that by the year-end public sector domestic debt will have risen 63 per cent in real terms to $92.4bn (21.5 per cent of GDP).

This would place it almost at the level inherited by President Fernando Collor in March 1990 following uncontrolled spending by his predecessor. This was before the Collor Plan, which froze assets nationwide, and reduced public debt from 24.6 per cent of GDP to 14 per cent.

Mr Francisco Gros, the central bank governor, argues that the internal debt tells only half the story. Internal debt has expanded from a very low base, but this has been mostly cancelled by the shrinkage of the country's *net* external debt. This has shrunk because, until recently, Brazil's foreign exchange reserves were expanding.

Apart from high interest rates, internal debt is being swelled by two factors. The first is the freeing of assets frozen under the Collor Plan. Since last August the government has been repaying around $2bn of these blocked cruzados a month by issuing bonds.

Although the government pays interest on the blocked cruzados, it is paying much more – 30 percentage points above money market rates – on the paper it is issuing to fund their liberation.

The second factor is the huge influx of foreign money into the economy, caused partly by high interest rates. This has almost doubled reserves in the last six months to $13.7bn at end-March, but has swollen internal debt because it is government policy to issue bonds to neutralise the monetary impact of the inflows.

Mr Gros predicts marketable internal debt will peak at 7.5 per cent of GDP or $30bn by year-end, and argues that this is low compared to countries such as Mexico and Italy.

"Public sector debt is not going out of control because both elements which led to its increase are running out of steam." He says 90 per cent of the frozen cruzados has already been liberated – the rest will be by August – while the central bank has acted to stem the inflow of dollars.

Fears of delay over HK airport

By Simon Holberton in Hong Kong

SENIOR British and Chinese officials meet in Beijing today to try to break the deadlock over financing Hong Kong's HK$175.3bn ($11.9bn) new airport and related infrastructure. However, the British and Hong Kong side is still unsure whether China is looking to settle the issue quickly. The talks are expected to last less than a week.

Beijing was given details by the Hong Kong government more than three months ago but has still not communicated its view on the financing of all aspects of the project.

The British team is led by Sir John Coles, deputy under-secretary of state at the Foreign Office, who is acting as the personal emissary of Mr John Major, the prime minister. Mr Major agreed the talks with Li Peng, his Chinese counterpart, during discussions at the Earth Summit in Rio de Janeiro last month.

Discussions so far have centred on a rail link between the airport and urban areas of the colony, but the Chinese have not yet discussed the airport. The cost of the railway has risen from HK$12.5bn to HK$22.2bn, in March 1991 prices, and Beijing doubts the government's ability to control its cost.

Beijing has also expressed doubts about a form of guarantee, known as "callable equity", which the Hong Kong government wants to give the two main public corporations responsible for the project. This equity can be called if the projects get in trouble, but Beijing regards it as a potential burden on the post-1997 government of the colony.

Discussions about financing offer China its last opportunity to exercise political leverage on this issue. British officials are seriously worried that the Chinese government will link its consent on financing to political developments in Hong Kong. Approval might then be delayed for months as Mr Chris Patten, the governor designate, is not expected to make any big political changes until the autumn.

Such a delay could threaten the undertaking Britain gave last September to finish the project before June 1997, when sovereignty over Hong Kong reverts to China. It could also undermine the international financial community's readiness to lend the project money.

The government needs China's consent before the local legislature rises for its summer recess towards the end of this month. The finance committee of the legislature has to approve the financing before the Provisional Airport Authority can let a contract to construct the platform for the airport. The PAA wants to do this in early August.

Retiring governor defends his record

By Simon Holberton

China has given the Shenzhen special economic zone power to make its own laws, Reuter reports from Beijing. Just over the border from Hong Kong, Shenzhen, has had to rely on Guangdong province for its legislation until now.

The decision was taken by the standing committee of China's parliament. The Shenzhen had argued it needed the power to help regulate its booming economy.

LORD WILSON, Hong Kong's outgoing governor, yesterday defended his approach to negotiation with China, saying talks were best conducted in private where patience and explanation were required to overcome mutual suspicion.

"You do not get many plaudits for this approach, but it is the only way to do it," he said a day before he gives up his post. "That is in no way what is sometimes characterised as a policy of weakness; it is just a commonsense approach." Lord Wilson hit out at "intellectual Luddites" in Britain who suggested a knowledge of China was of little use in governing the colony or in dealing with China. That was "akin to saying 'let's have ignorance rather than knowledge'," he said.

Lord Wilson, a leading Foreign Office sinologist before his appointment as governor five-and-a-half years ago, has accepted retirement earlier than he wished.

His replacement by Mr Chris Patten, a professional politician, was widely seen as the result of dissatisfaction in London with the performance of a senior bureaucrat in a job which increasingly required sensitive political antennae. Lord Wilson praised Mr Patten's political talents, saying the former Conservative party chairman would make a good governor. Mr Patten takes over next Thursday.

During his term in office Lord Wilson had to deal with the influx of Vietnamese refugees, the aftermath in Hong Kong of the June 1989 Tiananmen incident, and gruelling negotiations with the Chinese government over democracy in the colony and plans to build a new airport.

He won widespread praise for his leadership after June 1989 and his forthright stand on the issue of British nationality for Hong Kong people. But he has been criticised by colony liberals for being too prepared to see Beijing's point of view in dealing with other issues, notably the pace of democratisation.

Sectional dissatisfaction with his leadership was made plain on Wednesday when members of the United Democrats, who swept popular elections last September, pointedly failed to applaud his valedictory speech to the legislature. Yesterday, Lord Wilson said there was a general wish in Hong Kong to move to a more representative form of government but the community was divided on the speed of that development.

Algeria wonders who can replace Boudiaf

Need to fill the power vacuum is urgent, write **Francis Ghilès and William Dawkins** from Algiers

ALGERIAN leaders were struggling yesterday to fill the void left by Monday's assassination of Mr Mohamed Boudiaf, the acting head of state. In less than six months since being recalled from 28 years' exile, Mr Boudiaf had done more than many previous leaders to confront the country's ills.

Economically, the crisis could not have come at a more sensitive moment as Algeria is seeking fresh backing from international lenders and oil companies. Politically, Mr Boudiaf had just begun to tackle corruption, to liberalise the rigidly state-run economy, and to establish a dialogue with younger people who make up the bulk of the population and provide most of the popular support for the now banned Islamic Salvation Front (FIS).

The speed with which he moved might have contributed to his assassination. Mr Boudiaf upset powerful interest groups which had much to lose from all his policies. Despite assumptions overseas that his death was the work of Islamic extremists, it is hard to find ordinary Algerians who blame the FIS, despite the fact that one of the two killers, now under arrest, was said to have cited religious motives.

Many people instead point the finger at a Mafia of politicians who lined their pockets during the previous quarter century of single-party rule under the Front de Libération Nationale (FLN).

Mr Boudiaf's death places even greater responsibility on General Khaled Nezzar, defence minister and the most powerful member of the collegiate presidency, the High State Council. The army is now the only source of authority which has avoided becoming enmeshed in the country's religious, regional and tribal conflicts. Gen Nezzar is said not to relish the role of national policeman and has tried to ensure stability without dominating the government.

That is the reason why he and his colleagues recalled Mr Boudiaf after cancelling last December's election – Algeria's first multi-party poll – and ousting the discredited President Chadli Bendjedid. The FIS was set to win the election and the military wanted a respectable civilian to avert fundamentalist rule.

The attraction of Mr Boudiaf was that he was one of the few politicians of his generation who was both a founder of the FLN and untainted by the corruption and the lack of freedom which had come to characterise Algerian government. He was exiled in 1963 precisely because he denounced FLN repression.

The need to fill the power vacuum is especially urgent because Algeria is delicately poised to reform an economy burdened by debt charges equivalent to 75 per cent of foreign revenues. It is in the middle of negotiations for a third standby loan from the International Monetary Fund crucial to confidence of foreign commercial and state lenders. Only 10 days ago the government scrapped eight subsidies on most foods – except bread, milk and semolina – more than doubling prices.

The uncertainty also casts a shadow over promising negotiations with international oil companies for production and exploration. Further violence could jeopardise this important source of cash as hydrocarbons provide 97 per cent of Algeria's foreign income.

Gen Nezzar must attempt to strike a delicate balance between keeping law and order and avoiding repression. Overreaction to the assassination could give FIS extremists an excuse to hit out against the state and could whip up more popular support.

Working to the general's advantage is evidence that younger FIS supporters genuinely mourn Mr Boudiaf. Mourners at his funeral on Wednesday chanted FIS slogans normally used against the government but this time used in homage to the former head of state.

"We live for our faith," they chanted. "We will die for our faith and this fight will lead us to Allah. Long live Mr Boudiaf." Others shouted: "The army, the people, Boudiaf, we are with you." Cries of "Chadli assassin" underlined the crowds' fear of a return to the previous regime.

One FIS supporter in the Ruisseau, a fundamentalist area in the capital, said yesterday: "I did not support Mr Boudiaf when he was alive but I do now since his assassination." Another resident expressing a widely held view, said: "It is as if a family had decided to kill its own father."

Their statements underline the sense of futility and loss among Algerians today, for Mr Boudiaf was only the latest of several heroes of Algeria's fight for independence to be killed by his own side.

Gloom in Japan deepens

By Steven Butler in Tokyo

PESSIMISM about growth prospects for Japan's economy is spreading among Japanese research institutes, many of which have lowered forecasts in the past two days.

Nomura Research, one of the gloomiest, said yesterday the government would have to spend an extra Y8,000bn (£38.3bn) on public works if the forecast 3.5 per cent growth in the fiscal year ending next March was to be achieved.

The governing Liberal Democratic party has proposed a programme for Y6,000bn-Y7,000bn in extra public spending, although the Finance Ministry opposed it.

According to Nomura additional spending of Y5,000bn, along with a 0.5 per cent cut in the official discount rate to 3.25 per cent, would result in just 2 per cent growth. "We cannot be optimistic about future sales trends among corporations because of difficulties in exports continued caution in capital spending plans, and obvious reduction in household consumption," it says.

Yamaichi Research and Wako Research have reduced growth forecasts to 2.7 and 3.0 per cent respectively. Yamaichi expects private sector demand to rise this year by just 1.4 per cent, compared to 2.0 per cent last year.

Corporate capital spending is expected to decline by 1 per cent, after last year's 3 per cent rise.

The themes have also been echoed by Sumitomo Research, Mitsui Trust and Banking, and Nippon Trust Bank, which have lowered growth forecasts to between 2.6 and 2.9 per cent.

Critical to all the forecasts is the timing and size of an expected government supplementary budget, as well as the timing of inventory adjustment as manufacturers reduce production to clear excess stocks of unsold goods.

Yitzhak Rabin speaks to reporters yesterday after being appointed Israel's prime minister-designate by President Chaim Herzog. He has 21 days to build a governing coalition with left-wing and hard-right parties, both of which are holding out for better terms.

NZ deficit at twice forecast

By Terry Hall in Wellington

MS Ruth Richardson, the New Zealand finance minister, unveiled a deficit of NZ$3.2bn (£916m) for 1991-92 in her annual budget speech yesterday, nearly twice the amount forecast last year.

She predicted that the deficit would rise to NZ$3.3bn this year, fall to NZ$2.8bn in 1994 and to NZ$2.3bn by 1995. Ms Richardson said she was far from comfortable with these forecasts, but would not increase taxes. Instead she would control the deficits by checking government spending and countering tax avoidance.

The budget contained no new initiatives, in contrast to the sweeping changes to the welfare state that Ms Richardson announced last year in what she then called the "mother of all budgets". Many of these were amended or withdrawn because of public protest or because they were considered unworkable.

Among the few changes yesterday, the government is to boost education spending by NZ$100m and put an extra NZ$90m into employment and training schemes.

The budget announced a number of new tax measures including taxing business entertainment expenditure, and taxing New Zealand residents on their worldwide income.

A plan to develop the biggest exotic forest in New Zealand, in erosion-prone land on the North Island's East Cape, an area of high Maori unemployment, was also disclosed.

Much of Ms Richardson's financial statement dwelt on what she termed the successes of the past year. These included cutting government spending, to a forecast 39.2 per cent of gross domestic product this year from 39.6 per cent, and lowering inflation to 0.8 per cent.

S African workers ponder role as shock troops

Philip Gawith looks at the strengths of the unions as they defy the Pretoria government

A ROAR of approval swept through the crowd as the slim figure on the platform denounced President F W de Klerk and pledged an unprecedented campaign of "mass action" to bring about majority rule.

If the enthusiastic response in Boipatong on Monday to Mr Jay Naidoo, general secretary of the Congress of South African Trade Unions (Cosatu), was anything to go by, Mr de Klerk's days may be numbered. But there are several reasons for believing that South Africa's white government will be a tougher nut to crack than Mr Naidoo and his audience at the funeral for victims of Boipatong's massacre last month may believe.

As an alliance partner of the African National Congress and South African Communist Party, Cosatu is lending its enthusiastic support to their mass action campaign aimed at speeding the transition to democracy.

Indeed, with its 1.3m membership spread across 17 affiliates – mining, metalworkers, food and clothing and textiles are the largest – Cosatu is pivotal in the plan to bolster the alliance's position at the negotiating table through people-power on the street. The high point of this campaign will be a Cosatu-led general strike, as yet of unspecified duration, set for August 3.

The extent to which unionised workers are ready to be used as political shock-troops, however, is unclear. Few doubt Cosatu's ability to organise a short-term mass stayaway. In July 1990 and again in November last year, more than 3m workers heeded such a call. But many doubt whether an extended national strike is possible. Mr Brian Allen, a director at Andrew Levy and Associates, a labour research group, says he is "doubtful there will be a genuine national strike" which would last more than "a day or two".

The youth and the unemployed among the crowd who cheered Mr Naidoo so enthusiastically can be expected to lend their support to protest activities. For unionised workers and their leadership, however, the equation is more complicated. With an estimated 40 per cent unemployment rate in South Africa, unions now represent an élite constituency, only too aware of the perils of joblessness. Many have already been involved in strikes this year and will be wary of politically motivated action which almost certainly lays them open to dismissal.

Attitudes among employers to political strikes have hardened. This is partly because of violence which often accompanies such events – about 100 people died in violence following November's stayaway in protest at the taxing of staple foods with the introduction of VAT – and partly the weak state of the economy. The Reserve Bank noted in its quarterly bulletin last week that gross domestic product decreased at an annualised rate of nearly 2 per cent in the first quarter.

Mr Bokkie Botha, human resources director at the chemical group AECI, says: "It is absolutely clear that some employers will be forced to dismiss workers if their businesses fold. There simply isn't the sort of slack we had in the past."

The level of industrial action is already high. Figures from Andrew Levy show that 650,000 working days were lost in the first half of the year compared to 375,000 in the same period in 1991. Ongoing strikes at the South African Broadcasting Corporation, in the state health service and at Toyota, the local assembler of Japanese cars, remain unresolved. The largest union, the National Union of Metalworkers, is also balloting for strike action.

There is quiet optimism in the mining industry, however, that wage negotiations will be settled without resort to strike action.

Permanent force urged by UN chief

By Robert Mauthner, Diplomatic Editor

MR Boutros Boutros Ghali, the United Nations secretary general, yesterday called for the creation of a permanent rapid intervention force from 10 to 20 UN member states as part of an enhanced peacekeeping role for the world organisation.

Each of these member countries would earmark a special battalion in its national forces for use by the UN when required at 24 hours' notice. Such a standby force would not only make the UN into a more potent peacekeeping and peacemaking instrument, but would act as a deterrent to potential aggressors, Mr Boutros Ghali said.

Mr Boutros Ghali's proposal is part of a plan called "An Agenda for Peace" drawn up by him after last year's summit of the 15-nation UN Security Council, on request of its then president, Mr John Major, the British prime minister, whom the secretary general met in London yesterday.

The report proposes a new four-phase strategy for dealing with threats to peace and security. In addition to "preventive diplomacy," which would provide an early warning system for assessing possible threats to peace, Mr Boutros Ghali suggests a new method of dealing with such threats which he describes as the "preventive deployment" of UN troops.

Under this strategy, UN forces would be sent to an area to deter hostilities instead of waiting until after the outbreak of hostilities.

Mr Boutros Ghali insists that, if peaceful means fail, the Security Council should use its power to employ military force to restore international peace and security. It has never been used before, not even in the Gulf crisis, when the Council authorised member states to act on its behalf.

Ruling party in Mongolia sweeps poll

MONGOLIA'S ex-communist ruling party crushed its democratic opponents to win 70 out of 76 parliamentary seats in last Sunday's election, according to official results released yesterday, Reuter reports from Ulan Bator.

The General Election Commission said the Mongolian People's Revolutionary Party (MPRP) polled 56.9 per cent of the total vote, six percentage points down from its showing in Mongolia's first free elections in 1990.

The Democratic Coalition won the second highest number of votes with about 17 per cent. It won four seats in the country's new single-chamber parliament. The Social Democratic Party came in third with 10 per cent of the vote, securing one seat. The final seat will go to an MPRP member who ran as an independent.

The democratic parties have yet to decide whether they will go through with a threat to boycott the parliament.

Few bets placed in Nigeria for a certain future

This weekend's elections, says **Julian Ozanne**, are biggest test yet for promised return to civilian rule

NIGERIA goes to the polls tomorrow, marking the critical penultimate step in a precarious return to civilian rule for black Africa's most populous country.

Nationwide elections for the 91-member Senate and 589-seat House of Representatives will be the greatest test so far for the transitional programme to democracy put in train seven years ago when General Ibrahim Babangida seized power in a military coup. The process is designed to end in a formal hand-over to a civilian president in January and the inauguration of the so-called Third Republic.

However, hopes that the programme would usher in a new political order free from the corruption and ethnic and religious tensions which have plagued Nigeria's post-colonial history have disintegrated. Most Nigerians feel remote from the artificial two-party system imposed on the country by army decree and from elections which have been overshadowed by some of Nigeria's most violent religious and anti-poverty riots. The subsequent heavy-handed arrest of five popular pro-democracy activists, released on bail on Monday after 42 days' detention, has further sidelined Saturday's elections.

To make matters worse, the National Electoral Committee announced only a week ago that 32 candidates were disqualified and that the two parties, the Social Democratic Party and the National Republican Convention, had four days to present new names. No reasons were given.

The growing body of vocal pro-democracy critics seized on the disqualifications as yet another in a list of fundamental flaws, which, they say, include the government's decision four months ago to wipe 20m names off the voters' register, the imposition of the two-party system, the absence of ideological differences in the party manifestos drawn up by government officials, and the use of draconian detention powers.

"We want the right to form our own political parties and vote for the policies and leaders we like," said Dr Beko Ransome-Kuti, one of the released activists. "We don't want to be told what to do by generals. We want the right to have the kind of democratic freedoms you have in Britain." Dr Ransome-Kuti, chairman of the Campaign for Democracy, wants the programme suspended and is trying to mobilise support for establishment of a sovereign national conference of all political groups to decide the country's political system and constitutional future.

However, unless the democracy movement can organise mass action, Gen Babangida will not meet their demands. Many Nigerians also believe that calls for a national conference, or any disruption of the established process, could give Gen Babangida and his military clique the opportunity to extend their rule again.

"We know the "programme is a complete sham and is thoroughly undemocratic," said one senatorial aspirant. "But as long as Babangida continues to head towards the 1993 hand-over, then we're prepared to play ball, no matter the costs. We've got to make sure he can get out if he really wants to. Many soldiers want their turn at power and money and are just looking for an excuse." The pro-democracy movement argues that, unless the proposed transition is changed, any regime which takes over will lack a democratic base and popular support, inevitably implode and lead to another coup. They say that, with the return of many former political heavyweights from the discredited previous civilian regime and the re-emergence of bitter political squabbling and "money politics", the prospects for a credible political system are slim.

Some even suggest that Gen Babangida has designed and manipulated the programme to ensure that a Third Republic would start life with a poisoned pill.

Even those who believe Gen Babangida will honour his promise to step down in January are looking not to tomorrow's elections but to the 1996 polls as the first opportunity to build a democratic system.

Questions are also being raised about the kind of economic situation a civilian regime would inherit. A standby agreement with the International Monetary Fund (IMF) is now almost impossible before year's end, given Gen Babangida's repeated rejection of an increase in the domestic price of petroleum and the government's apparent unwillingness to rein in rampant spending. Failure to come to terms with the IMF rules out the possibility of a Paris Club rescheduling of Nigeria's $31bn (£16.7bn) external debt and will probably mean the accumulation of arrears on this year's $5.4bn debt-service payments. Any incoming administration will immediately be faced with severe internal and external indebtedness.

"Babangida's grand dream to retire gracefully to his home in Niger State and leave behind a new political culture and a sound economy is now a ridiculous fantasy," said a western diplomat. "He's messed it up, probably not deliberately, through incompetence and the greed of his army cohorts."

It is with great uncertainty, therefore, that Nigerians will cast their votes – an uncertainty compounded by the silence on how the 19-man Armed Forces Ruling Council, Gen Babangida's legislative body, will function alongside the National Assembly until next January. Nobody seems to be betting on how the next six months will unfold, probably not even the nation's military rulers.

NEWS: UK

'Little England' view condemned by Major

By Philip Stephens and Alison Smith

MR JOHN MAJOR last night reaffirmed his commitment to the European Community as he dismissed the views of Baroness Thatcher's as those of "little England" after she used her first speech in the House of Lords, Britain's upper chamber, to launch another attack on the Maastricht treaty.

He voiced criticism of his predecessor in a speech designed to rally Conservative MPs behind the government's strategy on Europe and the economy before the summer parliamentary recess later this month.

The prime minister admitted he shared their concerns about the sluggish pace of economic recovery. But he said that the government's policies had secured the prospect of an "end to inflation" during the present parliament: "We must not let that chance slip". Warning of a tough round of public spending negotiations, he added that the steady growth which would result from sticking to present policies.

Mr Major, who had earlier faced a direct attack from Lady Thatcher over his determination to press ahead with ratification of Maastricht, said he would keep Britain at the centre of decision-making in the European Community.

In what was taken as a sharp rebuff to his predecessor, he added: "I do not want us to be little England, impoverished, sour in isolation, bereft of hope, languishing on the sidelines of Europe, of the sidelines of history."

His response was prompted by comments by Baroness Thatcher, who said: "Searching for a definition of subsidiarity is not a way forward." The issue, she added, appeared to be being discussed on the basis that the Community had the power which it then parcelled out to the member states.

Her own proposal was for the government to press for a formal and binding re-statement of the Luxembourg compromise – under which if a country feels that a vital national interest is at stake, a vote is postponed until agreement can be reached.

Lady Thatcher warned that as EC ministers spent more time in each other's company they became out of touch with their electors. "People feel that their governments have gone ahead too fast, so that now the gap between governments and people is too wide," she said.

However, she supported the government's efforts to persuade the other EC countries of the need for urgency in enlarging the Community.

Lamont criticised on VAT

By Ivor Owen, Parliamentary Correspondent

BRITAIN'S limited room for manoeuvre in opposing some harmonisation of indirect taxes in the European Community was underlined by Mr Norman Lamont, chancellor, in the Commons last night.

He faced criticism from Tory MPs and from Mr Gerald Kaufman, Labour's shadow foreign secretary, over his readiness to join with other EC finance ministers in Luxembourg on Tuesday to accept a Community-wide minimum Value Added Tax (VAT) rate.

Sir Peter Tapsell, the Tory MP, said that by agreeing that Britain should lose its freedom to reduce VAT, the Chancellor had driven a coach and horses through the principle of subsidiarity embodied in the Maastricht treaty.

To cheers from Maastricht critics, Sir Peter argued that as a result Britain had less control over its sales tax than any US state. He maintained there was no reason why Britain should not be able to reduce its rate of VAT, and said "if the recession gets worse we may wish to do so to increase purchasing power and demand".

Mr Kaufman seized on the chancellor's stance in Luxembourg to ridicule claims made by Mr John Major, prime minister, about the importance of the principle of subsidiarity in enabling more decisions to be made by national governments.

Backed by Labour cheers, Mr Kaufman contended that Mr Lamont's decision to accept that the EC should be the arbiter for the levying of VAT provided a "very interesting example" of what should be done at European rather than national level.

Monica Seles overcame nine-times champion Martina Navratilova in three sets to reach the Wimbledon final, the only Grand Slam tournament she has not won. Seles defeated Navratilova 6-2 6-7 6-4. She will face Steffi Graf who beat Gabriela Sabatini 6-3 6-3 in the other semifinal.

John McEnroe beat Guy Forget in the men's quarterfinals. In the semifinals, he will meet Andre Agassi, who knocked out Boris Becker. Pete Sampras will play Goran Ivanisevic

Britain in brief

Sky unveils pay scheme for TV soccer

British Sky Broadcasting plans to introduce pay-per-view for Premier League football matches in two years - in time for the 1994-95 season.

From next month Sky Television's sports channel will move to monthly subscription to start paying for the £304m Sky - BBC five year deal signed with the Premier League in May. But it is now clear that Sky plans to start charging for individual matches in two years time.

In a report to the Premier League as part of the successful bid to take top league football away from ITV, Sky Television examines the financial impact of charges ranging from £1.50 to £5 a match.

DEGI buys office block

DEGI, Germany's largest open ended property fund, has bought an office building in Westminster for £57m from Norwich Union. This is DEGI's third acquisition of a London office property in a year and brings their total investment in the London market to nearly £148m.

DEGI said that its decision to invest in London office property stemmed from the high yields they offered and the difficulty in finding suitable opportunities in the former east Germany. DEGI has only made one other property deal outside Germany, which was the acquisition of a property in Wall Street, New York.

Ulster talks set for London

Face-to-face negotiations between leaders of Northern Ireland's political parties and the British and Irish governments are expected to start in London next week.

The IRA, however, provided a reminder of the depths of the province's continuing "troubles" by admitting the murder of three people it claimed were informers for the UK security forces.

The latest series of political talks started in April but are based on a programme agreed in March 1991.

UK currency reserves fall

Britain's gold and foreign currency reserves fell an underlying $14m last month, the Treasury said. The overall level of reserves, which includes debt repayments under the exchange cover scheme, fell by $104m to reach $45.7bn (£24bn) on June 30.

ICI agrees pay increase

Imperial Chemical Industries (ICI) has agreed to raise the pay of 19,000 hourly paid employees by 5.1 per cent in the latest in a series of higher than average pay settlements at chemicals companies this year. It made the offer after union leaders and workers rejected a previous offer of 4.5 per cent, which is around the average in UK manufacturing.

Assuming employees accept union leaders' advice to accept it, the deal raises the possibility that they will receive more than 11 per cent this year.

Tory media director quits

Mr Shaun Woodward, the Tory party director of communications, said he was standing down. He said he wanted to consider his options before deciding on his next career move. He was widely criticised earlier this year for the Tory party's lacklustre election campaign, but widely praised by party leaders for his role in securing victory.

Canary Wharf denies cuts

The administrators to Canary Wharf, the insolvent office project in the London Docklands, have rebuffed criticism that the maintenance standards of the complex were slipping. In a letter to tenants, Mr Alan Bloom, one of the joint administrators from Ernst & Young, said there had been no cuts in the project's maintenance staff. But he said it was inevitable that at any particular time there would be items of maintenance outstanding.

Christie's sells dinosaur egg

There appears to be nothing an auction house cannot sell. Christie's South Kensington has sold a 70m year old fossilised dinosaur egg for £5,500. The 18.2cm long egg is assumed to have come from a sauropod dinosaur Hypselosaurus - and, some might be interested to learn, from the Maastrichtian period.

■ Inquiry seen as vindication of market views ■ Tripartite governing structure proposed ■ 'Lax' approaches attacked ■ Anger over voting

Lloyd's professionals welcome reports

By Andrew Jack and David Owen

PROFESSIONALS in the Lloyd's insurance market yesterday welcomed the findings of the Walker and Morse inquiries and endorsed their recommendations for reform.

Many were still digesting the contents of the reports which were released in the morning after newspaper leaks over the previous two days. Most concentrated on the Walker report, which concluded that there was no evidence of fraud in the operation of the market. They saw it as a vindication of their own views.

Those working in the market conceded that the standards of some individuals and companies had fallen below acceptable levels.

Mr Stephen Merrett, chairman of Merrett Holdings, the underwriter, said: "It has been more apparent how much the market is damaged by the actions of a few."

Mr Robin Warrender, managing director of London Wall Holdings, an agency group, said: "Manifestly some agents' standards of competence have been woefully inadequate."

Mr Terry Hayday, chief executive of Sturge Holdings, the managing agency, said: "We are pleased there was no evidence of fraud. It's a relief to all of us. The conclusions drawn are the right ones."

He supported the recommendations. "They will be welcome," he said. "They can do little else than improve the professionalism in the market. I fully expect the pendulum of regulation to swing from a relatively relaxed regime to a much tighter one."

But he added a note of caution: "We have to ensure that the commercial and entrepreneurial skills of the market are not killed and do not add to the costs of the market."

Mr Paul Archard, chairman of Lloyd's Underwriting Agents Association, said the allegations of fraud "were always a nonsense". He criticised the reaction of some groups of Names – individuals whose assets underwrite the market – which had called the Walker report a whitewash. "That really is a joke," he said. "Sir David has the utmost integrity."

Mr Archard said he strongly supported the calls in the report for peer review and echoed Walker's conclusions that the standards of some professionals were too low. "It would be ludicrous after the 1989 results to say otherwise than that some people fell below the highest standards," he said.

Mr David Rowland, who chaired the task force into the governance of Lloyd's which reported earlier this year, said: "I make no secret of the fact that the best [professionals] are very good and the bad ones are bloody awful. Walker's conclusions come as no surprise."

Of the Morse report, he said it was "inconceivable that a sensible man could think otherwise" than to separate governance of the market from its management.

At Westminster, where MPs had the opportunity of questioning Sir David in a 45-minute meeting, there was a mixed reaction to the reports.

Mr Richard Page, a member of the Conservative backbench trade and industry committee, said it was important that all proposals could be implemented without the need for new legislation which would not have been enacted until 1995. The approval in principle of the Lloyd's Council – the market's ruling body – was "a marvellous step forward".

Ms Marjorie Mowlam, Labour's voice on City affairs, criticised Sir David for accepting a brief that did not address the most serious problems, but said the report's conclusions indicated the failure of the present regulatory structure.

Court rules out 'duty of care' towards Names

By Andrew Jack

LLOYD'S of London yesterday won a landmark decision in the High Court that it has no specific legal responsibility to look after the interests of Names.

Mr Justice Gatehouse ruled that Lloyd's had no "duty of care" in a case brought in the name of Ashmore and 32 other plaintiffs who were Names on the now defunct Oakeley Vaughan syndicates.

The decision will make extremely difficult any further attempts by Names who have lost money on syndicates to seek compensation from Lloyd's in its role as regulator of the market.

However, Mr Michael Freeman, solicitor for the Names, said after the decision that he had already met some of the plaintiffs and there would be an appeal.

The judge's decision rested on several issues concerned with the scope of the 1911 Lloyd's Act, the principal legislation by which the market was constituted until a new act was passed in 1982.

He ruled that while Lloyd's had duties to regulate and to act fairly, it did not have a specific duty of care to Names. He also clarified that the 1982 Act – which specifies the duties of Lloyd's more precisely – came into effect as soon as it received Royal Assent in July 1982.

Lloyd's said yesterday it was "very pleased" with the decision. But it added: "This will not affect [our] continuous determination to regulate the market in a way that is both fair to members and allows the business to prosper."

Nevertheless, it said it had always recognised the obligation to deal fairly with members of Lloyd's in the exercise of its regulatory powers.

One plaintiff, who did not want to be named, said: "The general move among us is to carry on. This is definitely going to be appealed. It's a bad day for Lloyd's. Lloyd's pleading that it has no duty of care means Names have absolutely no redress at all and are absolutely unprotected."

He said many members' agents and managing agents were no longer taking out professional indemnity insurance. Combined with Lloyd's lack of duty, that meant Names had none of the compensation mechanisms available to investors in other regulated industries.

"This ruling must seriously affect any Names thinking about the future," he said. "It means Lloyd's can have an investigation, keep the report secret and Names have no redress."

Another plaintiff said he was considering taking Lloyd's to a European court.

Coleridge pressed over postal ballot

By Michael Cassell, Business Correspondent

MR David Coleridge, chairman of Lloyd's, was criticised yesterday for suggesting that Names unable to attend the extraordinary general meeting on July 27 were unlikely to get a postal ballot.

Lloyd's governing council faces votes of no confidence at the meeting, following the disclosure of £2bn losses in 1989.

Several Names attending the annual conference of the Association of Lloyd's Members demanded that arrangements for a postal ballot were implemented for the many people who would be unable to attend the meeting.

One overseas-based Name said the council would be making a "grievous mistake" if it disenfranchised a large number of members from taking part in a crucial vote.

Mr Coleridge said he could not give an immediate answer. He was taking legal advice and consulting the Electoral Reform Society, although the position would not be resolved for another week.

He suggested that there was insufficient time to organise a postal ballot, which would be costly, lengthy and potentially damaging to the standing of Lloyd's.

Morse urges smaller council

By David Barchard

THE COMMITTEE headed by Sir Jeremy Morse proposes a new tripartite governance structure for Lloyd's, with the ruling council cut from 28 to 14, a 14-member regulatory board and a 15-member market board handling business decisions.

To maintain its pre-eminence in the insurance world and grow in size and strength, Lloyd's needs to handle more businesses centrally, says the Morse report, published yesterday.

It says there is insufficient focus on one forum and too little sense of ownership by the market practitioners of the executive bodies acting on their behalf.

The report says the council needs revised terms of reference which explicitly require it to safeguard the interests of Names and policyholders. The terms of reference would cover only functions it cannot delegate, such as legislation, discipline and special meetings of members – along with some overall budget responsibility.

The reshaped council should have six working members, four nominated members and four external members and should meet less often than at present, says Morse. External members of the council should be paid about £15,000 a year.

All business issues should be debated and decided on in a Lloyd's market board which would take business decisions and absorb the role of the Business Issues Committee. Morse also says that:

- Members of the board should be elected by the market.
- The board would lead the market, decide on central business strategy issues, decide on major investments in new trading methods, set standards and maintain the capital base.
- The board would have a full-time chief executive officer leading a team of executives.
- Market associations for different sectors would continue, but a single market association should be set up which would nominate members to the Lloyd's Board.
- The market board should act in close consultation with representatives of Lloyd's brokers.

The report recommends that Lloyd's regulatory council should be distinct from the bodies serving the business interests of the market.

The market board would be responsible for recovering costs from the market, but its proposals on central charges on members would go to the regulatory council for final decision.

The report says the full restructuring of Lloyd's could take several years, but a transitional structure is recommended as a matter of urgency.

The present post of chief executive should be succeeded by two posts, the chief executive office of the Lloyd's market board and a head of regulation for the regulatory council.

Walker demands tough action to improve standards

By Richard Lapper

SIR DAVID WALKER, who was described by Mr David Coleridge, the chairman of Lloyd's, as "so white that snow-white looks dirty", has delivered his verdict on the insurance market.

Although Sir David's 68-page report clears Lloyd's of any conspiracy or fraud, it provides an extensive list of shortcomings and is seriously critical of the market's professionalism and regulation.

It also calls for far-reaching reforms to usher in greater disclosure, more pro-active regulation and more professional business practice.

About half the report is devoted to a searching examination of the LMX spiral reinsurance market – in which Lloyd's syndicates and other companies reinsured each others' catastrophe losses.

Losses from about a dozen spiral syndicates have left Names facing some of their heaviest losses, but the committee "did not in its own investigations form a view that there was any fraud or conspiracy to disadvantage particular groups of Names or to advantage others".

Corporate reinsurers also lost substantial sums from spiral business, says the report. The development of the LMX market was not improper and was "wholly explicable in terms of commercial factors and judgments".

The committee found "no basis on which LMX spiral business would sensibly be regarded as other than insurance business" and the report rejects allegations of "churning" – that some LMX contracts were agreed merely to generate brokerage commission.

Development of the LMX spiral market was "wholly explicable"

"The committee believe that active underwriters on several of the loss-making syndicates were heavily influenced by LMX brokers. But, in the absence of any evidence of impropriety on the part of these brokers, the committee believes that responsibility rests – and should continue to rest – with active underwriters."

But the report says the level of brokerage commission is "quite unrelated to the scale of effort and risk involved".

The report is highly critical of "standards of professionalism, care and diligence on the part of a number of members' and managing agents and active underwriters" which were "materially below best practice".

The approach to fiduciary responsibilities, in the case of several members' agents, is described as "lax, with an unattractive appearance of preferencing of brokers and of members' agents themselves in some cases".

Equally, the report says, "we were unimpressed by standards of performance achieved by some managing agents and believe that what proved to be seriously flawed underwriting judgments might have been constrained if active underwriters had been subject to more effective control by their managing agents."

The committee found that "certain aspects of regulatory policies" were "at any rate with hindsight, insufficient to identify shortcomings in performance and concentrations of exposures in a timely way".

Premium income monitoring – under which Lloyd's places a limit on the amount of premiums a syndicate can underwrite – was inadequate to constrain the high-risk exposures underwritten by spiral syndicates, says the report.

Syndicates specialising in catastrophe business became too highly "geared", with their potential liabilities far outstripping the size of their capital base.

The committee found evidence that insiders had obtained better returns than outside Names. Insiders – Names with jobs with agencies and brokers on the market – had "tended overall to fare better than external Names", though not "in general and in most years, on an immodest scale given [their] inevitably superior market knowledge".

Working Names, and in particular directors of Lloyd's brokers, have a greater share of the capacity of more profitable syndicates than their share of total Lloyd's capacity, says the report.

New capacity has been allocated similarly, in part reflecting the relative ease of access of existing Names on a syndicate to new capacity sought by that syndicate.

In contrast, working Names were proportionately under-represented on the 10 LMX syndicates which have suffered the worst losses.

Overall, directors of members' agencies have enjoyed better returns – particularly in 1989 – than the external Names represented by their agencies, although this was not the case for all members' agents.

Sir David recommends 18 reforms. Among the most important proposals are:

- Lloyd's should take a pro-active regulatory stance, setting tougher standards for agencies and underwriters and ensuring that regulatory breaches are pursued more vigorously. Compliance standards should be more adequately monitored. In the LMX market in particular, closer regulatory attention should be paid to syndicates that are regarded in the market as writing "soft" business.
- Lloyd's should make more use of its powers to register and deregister agencies. There should be tougher registration requirements for members' agents, possibly introducing limited-term registration reviewed annually.
- Increasing the onus on members' agents to ensure fairness in syndicate allocation and to promote standards of advice and protection for Names comparable with those for private investors under the Financial Services Act.
- Mandatory provision for peer group review through managing agents of the plans, policies and performance of every active underwriter. It says these proposals "go with the grain" of existing best practice to be found in the market.

Standards were in some cases found to be "materially below best practice"

"The challenge for Lloyd's is to ensure that the standards of the rest are consistently brought much closer to the standards of the best".

- Improvement in the quality of information held centrally by Lloyd's, with data published annually on syndicate performance and changes in syndicate capacity by category of Name "on the following minimum breakdowns" – directors of group boards and managing agents; directors of members' agents; directors of brokers; other active working Names, retired working Names; relations of Names in all these categories and non-working Names.
- Syndicates to publish annually changes in participations by directors of agencies. Members' agents should not accept offers of new capacity to them or to any of their Names unless that capacity is to allocated equally among all their Names.
- New ways to assess the risk. "We believe there is room for Lloyd's to develop techniques in this respect in line with developing management practice among leading corporate reinsurers."
- Limits on the proportion of high-risk business a Name can write.
- Lloyd's should commission a "volatility analysis and risk assessment aimed at the development of a set of risk weights for different categories of business".
- An upper limit on the proportion of the total capacity of individual Names that might be written in specified high-risk categories.

Report of an Enquiry into Lloyd's Syndicate Participations and the LMX Spiral. Lloyd's of London. 1 Lime Street, London EC1.

Franchise system expected to revive era of private railway companies

British Rail faces regional sell-off

By Richard Tomkins, Transport Correspondent

THE imminent policy document on the privatisation of British Rail, the state rail network, is expected to pave the way for a re-creation of several historic private railway companies such as the old Great Western Railway.

The plans partly take on board the desire expressed by Mr John Major, the prime minister, to see a revival of the pride and loyalty attaching to the four big regional railway companies that existed immediately before the 1948 nationalisation.

But the policy document is also expected to reflect present day realities by basing the division of the passenger railway on the 19 so-called profit centres recently established by BR as part of a massive internal restructuring.

The result of this smaller sub-division of the network will be to take the structure further back in railway history to the days of the smaller companies that existed before the big regional companies were created in 1923.

The private sector will be invited to bid for franchises to run the services now being operated by the profit centres. Examples of main line franchise areas include the former Great Western lines from London Paddington to the south-west, and the former London Midland & Scottish Railway lines out of London Euston to the north-west.

On Network SouthEast south of the Thames, the three franchise areas are expected to coincide almost exactly with the routes once operated by the London & South Western Railway, the London Brighton & South Coast Railway and the South East & Chatham Railway.

The whole track infrastructure including signalling is to remain in BR's ownership. Further, it now emerges that companies wanting to run their own trains on BR's tracks could find it difficult to get access because BR and its franchisees will enjoy "grandfather rights" to all train paths in the existing timetable. This means that any slots left over for independent train operators such as Virgin will almost by definition be the least desirable ones.

Ministers acknowledge, however, that privatisation is on a slow track, particularly in the wake of the big losses announced this week by British Rail. Only a minority of passenger services are expected to be franchised within the five-year life-time of the current parliament.

The lines likely to be franchised first are those where substantial investment has taken place, such as Network SouthEast's Thames and Chiltern services. Others awaiting investment are likely to stay in the public sector indefinitely.

Ministers acknowledge that uncertainty over the prospects for privatisation will linger beyond the summer because the white paper will not tackle the crucial issue of how private train operators will be charged for the use of BR's tracks.

Instead, track charges will be the subject of a separate report later this year. But ministers are making it clear that the government will not be prepared to subsidise them.

On the other hand, subsidies for socially necessary train services will continue. Commuter fares will also remain subject to political control, with the government compensating operators for loss of potential revenues.

The government also plans to introduce a system of grants for the provision of railway infrastructure where it can be shown that investment provides benefits of greater value than can be captured through the fare box.

Ministers accept privatisation is on a slow track: high speed InterCity trains at King's Cross yesterday

Stockbrokers told to tighten self-regulation

By Norma Cohen, Investments Correspondent

THE City's self-regulatory system must demonstrate its ability to get tough with its members following the Maxwell affair or face being replaced with a hostile watchdog, according to the chairman of self-regulatory body for the stockbroking industry.

"Self-regulation is under attack from the media and from Parliament," said Mr Christopher Sharples, chairman of the Securities and Futures Authority. "In a sense, we are in the Last-Chance Saloon for self-regulation."

Mr Sharples remarks were made as the SFA unveiled its report and accounts for 1991/92 showing the group had begun 23 disciplinary proceedings in that year and imposed fines on members of just over £1m.

Revelations about City firms' connections with the theft of over £400m from pension funds controlled by the late Mr Robert Maxwell, even if those firms had no knowledge of the theft, had brought the entire regulatory structure into question, he said.

Separately, it has emerged that SFA is considering disciplinary proceedings against four of its members named in a writ issued by? in connection with the disappearance of £88m from the Mirror Group Newspapers Pension Scheme. The four are Capel-Cure Myers, Lehman Brothers International, Bank of America and Credit Suisse.

The writ alleges that the firms should have been suspicious about transactions they effected for up to a year before Mr Maxwell's death. Also, the writ alleges that at least some months before he died, some of the firms suspected that assets were being diverted from the pension schemes.

SFA may take a wide range of actions in disciplining a member ranging from censure to barring it from all or part of its securities activities.

Mr Sharples said that so far, self-regulation has proven to be more successful than its critics acknowledge. The system prevents regulation from becoming a bar to innovation and is crucial to the UK's success in providing financial services in a competitive global market,he said.

If Britain's retail financial service companies fail to agree on the formation of a new, integrated self-regulatory body for their own businesses, political pressure to scrap the current system is likely to arise, Mr Sharples said. Currently, the firms are considering the formation of a new body, the Private Investors Authority, to replace two current self-regulatory bodies.

Recovery fears fuelled by slowdown in headhunting

By Peter Marsh, Economics Staff

A SHARP fall in demand for managers to fill senior positions in industry, shown up in figures released yesterday, has added to fears about a stalled recovery.

According to a survey by InterExec, a recruitment consultancy, the number of top jobs in UK industry for which headhunters are seeking candidates declined by 12 per cent in the second quarter of this year, compared with the equivalent period in 1991.

The study also indicates that overseas companies are stepping up their efforts to recruit executives based in Britain, taking advantage of the slack UK jobs market.

The figures apply to jobs at director level, at an average salary of £50,000. Efforts to fill such positions through "executive search" methods are considered a good indicator of companies' sales prospects.

Although the year-on-year change may have been distorted by the large increase in recruitment in the second quarter of 1991, after the end of the Gulf war, they will heighten anxiety that the upturn is running out of steam. In the first quarter, vacancies showed a 14 per cent year-on-year increase.

The number of receiverships and administration orders for June was down on the same time last year for the fifth consecutive month, according to figures collated by accountants Touche Ross.

There were 412 appointments of administrators in England, Wales and Scotland for June, compared with 483 in June 1991. The number of appointments rose from 358 in May, the fourth consecutive month in which the figures had fallen and the lowest number for 18 months.

The survey is based on information collected from about 1,000 employers and recruitment agencies. InterExec believes the study covers between a third and a half of all vacancies being filled by non-advertising techniques.

According to the survey, between April and June British-based companies were trying to fill 1,307 vacancies by headhunting, compared with 1,480 in the equivalent period last year. For the first six months of this year, vacancies were 2,834, just 0.7 per cent up on the 2,812 recorded last time.

As for overseas vacancies for which British managers were being sought, the number climbed to 274 in the second quarter, 40 per cent up on the 195 recorded for the same period in 1991. In the first quarter, such vacancies also showed a 40 per cent rise.

There was stronger demand in the second quarter for executives in computing and retailing, while demand for managers in personnel, building, general management and research all fell. Wales and the south-west were the only UK regions where vacancies rose.

City watchdog not to publish Maxwell report

By Norma Cohen

THE SECURITIES and Investments Board, the City's chief watchdog, said yesterday it will not publish the text of a long-awaited report on regulators' responsibilites in the Maxwell affair.

"SIB has been advised that publication of the full report could prejudice pending legal proceedings," SIB said. Instead, it will publish a statement setting out its assessments of regulators' roles and outlining actions it is taking.

It will also publish conclusions of a report by Imro, the self-regulatory body for the fund management industry, about its own role in the matter.

Imro authorised and supervised two Maxwell controlled companies which managed nearly £800m of pension funds from other Maxwell companies.

MEP may face UK trial over expenses

By Robert Rice, Legal Correspondent

MR LESLIE Huckfield, the former Member of the European Parliament (MEP) accused of fiddling his parliamentary expenses, can be tried in the English courts, the High Court ruled yesterday.

The Court reversed an earlier ruling which held that the case would have infringed the sovereignty of the European Parliament had it been allowed to proceed.

Presiding over the case, Lord Justice Leggatt said member states were entitled to prosecute an MEP for dishonestly obtaining expenses from the Strasbourg Parliament. The issue involved was dishonesty which was capable of being tried in a national court.

The Court refused to refer the matter to the European Court of Justice in Luxembourg for a definitive ruling. Mr Huckfield said he would now seek leave to appeal to the House of Lords.

The High Court's decision could bring it into conflict with the President of the European Parliament, Mr Egon Klepsch.

Mr Klepsch claims questions relating to expenses of MEPs are a matter for the "internal functioning" of the Parliament and that any review by the criminal courts of a member country conducted without the parliament's consent would "constitute an interference".

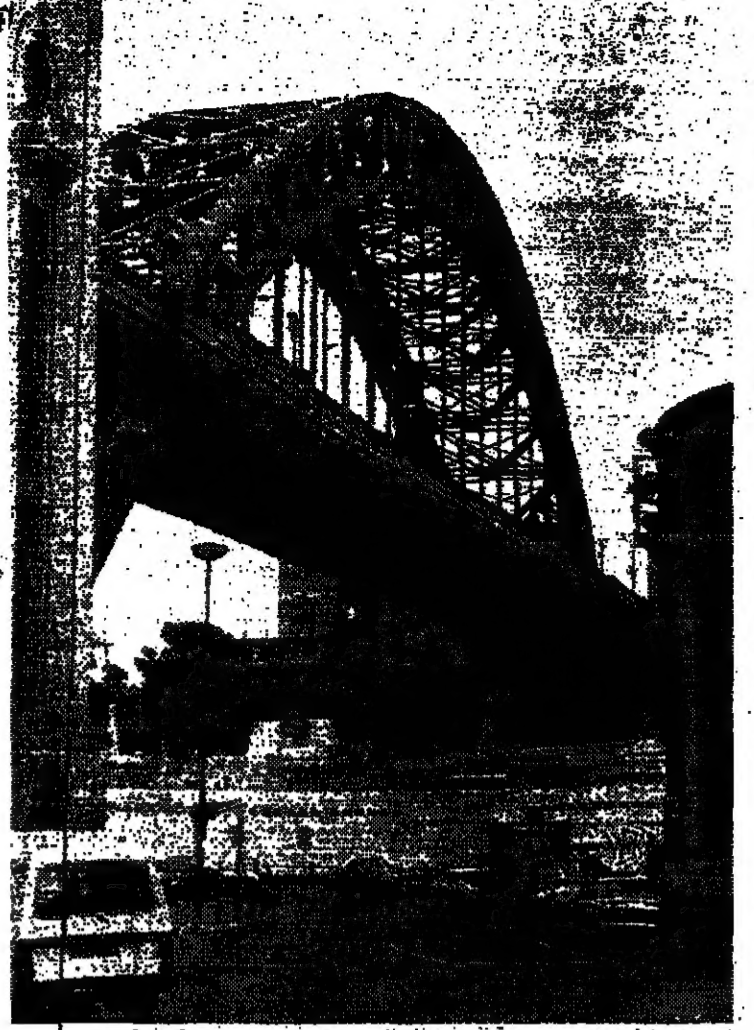
But the High Court rejected this argument.

Mr Huckfield, a former Labour minister who served as as an MEP until 1989, faced two charges of obtaining expenses by deception.

The Director of Public Prosecutions' office said it would now consider whether or not to launch a new prosecution.

THE PROPERTY MARKET

Glimmer of northern light on Tyne



Tyne Bridge: the East Quayside area exudes an air of neglect

Vanessa Houlder on regenerating Newcastle's inner city

Clinging to the steep slopes of the river bank, just downstream from the Tyne Bridge in north-east England, is Newcastle's most spectacular development site. In spite of the grandeur of the setting, the East Quayside area exudes a melancholy air of neglect. After decades of decline, today the river banks are home to dilapidated warehouses and ballast heaps.

But East Quayside has now received a potential shot in the arm. Last week, AMEC, a construction, engineering and development group, signed an agreement to build 123,500 sq ft of offices on the western edge of the site.

This is the first phase of a £180m scheme which could lead to the construction of 200 flats and houses, a five-star hotel, 324,000 sq ft offices and 135,000 sq ft of shopping on the 25-acre site over the next 10 years.

The development has attracted its fair share of criticism and praise. Local politicians say the masterplan is misdirected in terms of regenerating the area, while the Royal Fine Arts Commission has described the scheme as "an examplar for other city regeneration schemes".

The signing of the deal last week, in a restored sailors' chapel on the site, was described as an "historical moment" by Mr Alastair Balls, the chief executive of Tyne and Wear Development Corporation (TWDC). Mr John Redwood, the UK minister for inner cities said of the scheme: "A vision of the future . . . taking Tyneside into the next millennium."

Besides dwelling on the scheme's development potential, Mr Redwood also acknowledged that the development must have a social dimension. "It must work for the community as well. There must be jobs and training for people who live nearby."

Mr Redwood's comment touched upon an issue which is dominating the national debate about urban regeneration: namely how to ensure the social as well as physical regeneration of an inner city area.

The problem was summed up by the House of Commons employment committee in 1988. "Urban development corporations cannot be regarded as a success if buildings and land are regenerated but the local community is passed by and does not benefit from regeneration."

The government's opponents believe that its urban regeneration strategy has failed that test. "The problem has been that the policy is entirely based on property development rather than investment in the residents of the areas concerned or in creating businesses," says Mr Bryan Gould, Labour's environment spokesman.

Since 1987 urban development corporations have spent £2bn throughout the country on what critics describe as "worthless flagship projects" that have done nothing to regenerate Britain's manufacturing base. There is also little evidence, they add, to support the idea that the wealth created by bringing offices or tourism to a run-down area "trickles down" to local communities.

Newcastle provides a vivid illustration of the challenge facing those concerned with the problem of urban regeneration in the UK. Indeed, the need to improve the lot of the residents of run-down areas was underlined by the riots last September in the west end of Newcastle and the Meadow Well estate in North Shields.

Many of TWDC's development sites are surrounded by some of the most deprived housing sites in Newcastle – a fact which graphically reminds the corporation of its social responsibilities. The TWDC has had some success in creating manufacturing jobs. At the Royal Quays, a large development site in north Tyneside, Twinings, a tea packaging company, has put up a 90,000 sq ft plant, which will employ 270 people when it opens in the summer.

But elsewhere, some of the projects undertaken by the TWDC provide little suitable work for the local workforce. Historically, a third of Tyneside's workforce has been employed in the coal, steel or shipbuilding industries. The manual skills associated with these industries do not transfer well to service industries. The difficulty for the corporation is that it is easier to attract office users than industry to inner cities.

In the absence of new manufacturing employers, the work of the TWDC therefore risks underlining the divisions between the haves and have-nots.

St Peter's Basin, a marina project developed built by Barratt at a cost of £27m with an £11m contribution from the TWDC, is a case in point. The corporation argues that this development, on an old industrial site, helped change the image of the river-side. However, St Peter's Basin has been described by locals as an anomalous enclave of prosperity sitting in the shadow of one of Newcastle's roughest estates.

Consider also the case of Newcastle Business Park, which is situated on a landscaped development built on the former Vickers armaments factory site on the bank of the Tyne. The TWDC sees the park as an "outstanding success" having let 95 per cent of its space in 18 months. Yet the park is still a short distance away from a housing estate where unemployment is rife and which has secured little in the way of new jobs as a result of the park.

The corporation realises that something has to be done for local communities. And it has acted. It is helping to fund social housing to provide more than 600 homes. It also gives grant aid for community schemes and provides funding to re-train people formerly employed in the shipping and coal industries.

However, as the TWDC's Mr Balls says, the increasing emphasis on the social dimension of urban regeneration should not distract from the need for investment and jobs. Empowerment of local communities, he says, has little meaning without the prospect of jobs.

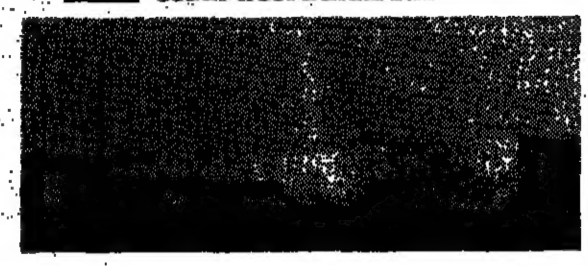
This view is shared by North Tyneside Council. It has put in a bid to win a share of the £750m available under the government's City Challenge urban regeneration scheme to rebuild the Community Centre on the Meadowell Estate and install infrastructure on an adjacent industrial estate. According to Mr John Foster of North Tyneside Council, the two elements – social and employment – must be combined. "Our view is that one without the other has been tried without success since the 1970s," he says.

The lesson of urban regeneration in the 1980s is that merely attracting private investment to inner cities is not enough, if it does not create the right type of jobs. In spite of the partial success of the 1980s in transforming inner cities, urban regeneration is likely to remain as big a problem in the decade ahead as it was in the decade past.

RENTAL GROWTH (%)

	Retail	Office	Industrial	All Properties
Year to May 92	-1.2	-12.3	-3.6	-6.1
Quarter to May 92	-0.5	-3.9	-1.8	-2.0
Month of May 92	-0.1	-1.0	-0.7	-0.6

Source: Investment Property Databank



COMPANY NOTICES

INFORMATION MEETING
JULY 21, 1992

FOR THE HOLDERS OF
U.S. $75,000,000 11-1/8% SENIOR DEBENTURES
OF
BRAMALEA LIMITED

One Queen Street East
Toronto, Ontario
M5C 2Y9

An information meeting for the holders of the outstanding U.S. $75,000,000 principal amount of 11-1/8% Senior Debentures due August 15, 1992 (the "1992 Debentures") of Bramalea Limited (the "Corporation"), will be held at:

Inn on the Park
Hamilton Place
Park Lane
London, England W1A 1AZ

on Tuesday, the 21st day of July, 1992 at 10:00 a.m. (local time)

at which meeting the Corporation will make a presentation to holders of 1992 Debentures as to its financial condition and the status of its discussions with its principal bankers and other major lenders. The Corporation will also ask holders of 1992 Debentures to consider selecting an advisory committee of such holders for purposes of holding future discussions to review the Corporation's new business plan discussed below.

Market conditions in the North American real estate industry have caused the Corporation to experience serious cash flow deficiencies. Since early May the Corporation has been holding discussions with its principal bankers and other major lenders as to the development of a new business plan which would provide for the extension of lines of credits to address the Corporation's working capital requirements and the extension of maturity dates on other indebtedness. As part of the implementation of the revised business plan, the Corporation recently announced a suspension of dividend payments on its common shares and on its First Preference Shares, Series B until further notice. In addition, the Corporation has not paid the semi-annual interest payment which was due on June 30, 1992 on the 10.20% Senior Debentures due June 30, 1999.

Additional information meetings will be held in Toronto, Canada in July, at dates to be announced, for those holders of the 1992 Debentures who wish to attend and for holders of the additional series of Senior Debentures of the Corporation. As these meetings are informational meetings only, no business will be transacted at these meetings within the meaning of the trust indenture governing the Senior Debentures of the Corporation.

Following the information meetings, a formal meeting of the Senior Debentures of the Corporation will be scheduled to consider the approval of the Corporation's new business plan. A notice will be published separately for a meeting of the holders of Senior Debentures for this purpose.

DATED at Toronto, Ontario this 30th day of June, 1992.

BRAMALEA LIMITED
Frank J. Graham
Senior Executive Vice-President
and Chief Financial Officer
Telephone: (416) 864-6450
Fax: (416) 359-9448

Unilever has ambitious plans for local manufacturing and sales in eastern Europe. **Guy de Jonquières** reports

Cleaning up after communism

From a Warsaw office building where General Jaruzelski once chaired meetings of the politburo, Hans Overgoor, chairman of Unilever's operations in Poland, busies himself today keeping the nation's laundry whiter than white.

It has been a full-time task since he was parachuted into the job a year ago, when the Anglo-Dutch consumer products company bought Pollena Bydgoszcz, a large Polish detergents producer, and set about turning it into a viable modern business.

The results are already starting to show. Pollena, re-named Lever Polska, has raised output by more than 50 per cent, is market leader in washing powder and is expanding its range. Though Overgoor will give no figures, he says sales this year will exceed "many times" the roughly $30m made in the second half of last year.

Unilever is keenly aware that making a success of Lever Polska is important in a country which craves foreign investment but views multinational companies with some suspicion. "If you want to make further acquisitions, you have to handle the first one well," says Hans Eggerstedt, Unilever's main board director responsible for Europe.

The operation is also the flagship of a plan to establish a local manufacturing and sales network in eastern Europe on a scale equalled by few, if any, competitors. Eggerstedt expects Unilever to have production in all three countries in the region and annual sales of as much as £700m in five years, by when the operations should all be profitable.

The strategy is the fruit of a meticulous planning exercise begun more than two years ago. Once the broad goals were set, teams of experts descended on the region to scout for potential acquisitions, tour plants and talk to managers. Having identified its targets, Unilever has stuck to its guns, resisting opportunistic buys.

In Hungary, Unilever has acquired VMTV, an ice-cream maker, and last February teamed up with Ferruzzi, the Italian agri-business company, to buy NMV, a producer of oilseeds, margarine and detergents. Unilever also has a Czech ice-cream joint venture and aims to round off its acquisitions this year with a food business in Poland and food and detergents companies in Czechoslovakia.

Though many day-to-day responsibilities have been left with managers and staff of the acquired plants, teams of expatriate executives have been dispatched to give advice and training. These "facilitators" are hand-picked for above-average ability and a talent for coaching local managers, who are expected eventually to run the businesses. "In the longer term, foreigners can't play more than a marginal role," says André Mico, head of Unilever in Hungary.

Because Unilever vetted its acquisitions closely before purchase, their factories have produced few surprises. Quality is said to be satisfactory and Pollena's output was increased largely by ironing out bottlenecks in the plant.

Redundancies have so far been avoided at Pollena. But Unilever, which refuses to commit itself to fixed employment levels, expects to cut staff in Hungary by as much as 15 per cent annually over several years.

Unilever is now upgrading its plants to handle technologically advanced products, most of which are still imported from the west. It plans to invest at least $24m (£12.9m) in Pollena, including adding a liquid detergents production line, and $10m to treble VMTV's capacity to 10m litres of ice-cream a year. Mico expects 90 per cent of VMTV's sales to be locally produced by the end of next year, up from 25 per cent today.

Manufacturing is heavily influenced by brand strategy. Unilever is pursuing a twin-track approach, keeping the better local brands while steadily adding international ones, with prices about 50 per cent higher than local equivalents.

Lever Polska's most successful product, Pollena 2000 washing powder, was developed before the company was acquired – as was its television commercial. Based on a Polish legend, its punchline, "Dad, beat him up!" has entered the local vernacular. In Hungary, however, sales of Panda, VMTV's ice-cream brand, melted away after Unilever began importing products from western Europe.

Though enthusiasm for western brands is strong in eastern Europe, positioning products can be tricky. For instance, some consumers believe locally-made products – even when they carry international brands – are inferior to imported ones.

Market research is still rudimentary: Overgoor is unsure even how many Polish households have washing machines. He relies heavily for marketing guidance on informal soundings with colleagues, customers and individual consumers.

Pitching advertising correctly also calls for careful judgment. Unilever has found that glamour and glitz work for toilet soap, but a more informative, down-to-earth message is needed for detergents.

One challenge which even Unilever's careful planning has not been able to deal with is eastern Europe's chaotic and rapidly-changing distribution systems. "The trade environment makes it very hard to reach the consumer," says Mico. "The really critical bottleneck to be tackled is to establish a sales force and manage the supply chain."

In Poland, Unilever estimates that a third of its products are sold through street traders, even though it does not supply them directly. "Distribution is developed only in the sense that, one way or another, products seem to find their way onto the shelves," says Overgoor.

Until the situation stabilises, improvisation will remain important. As well as working with and training selected local wholesalers and shops, Unilever is building up sales forces and distributing some products itself. Mico has called in colleagues from developing countries to advise him. Says Overgoor: "Basically, we try anything that works".

Both men hope the current turmoil is simply a transition phase, and that more efficient and professional distribution systems will emerge in eastern Europe later this decade. Judging by the daily pressures they face now, the change cannot come a moment too soon.

Strategies that are based on an import duty gamble

Unilever has so far invested $120m in manufacturing facilities in eastern Europe, and is likely to spend several times as much again in the next few years, writes **Guy de Jonquières**.

But why did it not save costs simply by exporting from its many western European plants?

The group gives three reasons: to avoid import duties – as much as 40 per cent on margarine in Hungary; to acquire market share quickly; and because most eastern European countries' external trade positions are too frail to afford large imports.

By producing in each country, Unilever also stands to gain from its image as a contributor to local wealth creation. Indeed, Polish government officials responsible for privatisation describe the group as a model corporate citizen.

But Unilever's strategy is in sharp contrast with that of US arch-rival Procter & Gamble, which aims to centralise detergents production for eastern Europe at a plant it acquired last year in Czechoslovakia. In theory, that could give P&G superior scale and efficiency.

Which strategy proves right may depend on what happens to import duties. Unilever believes they will stay high for some time.

But Eggerstedt admits local production could be "a risky proposition" if eastern Europe succeeds in creating a common market. In that event, Unilever's factories in the region would step up exports to western Europe. That could complicate its current drive to rationalise surplus west European capacity. But Eggerstedt says there would be no real choice because "even if we didn't export, others would."

Toothpaste giants apply the squeeze

Nicholas Denton looks at a state-owned Hungarian group

In the fierce competition for eastern Europe's turbulent consumer markets, it is the innocents who suffer. One of them is Tihamer Gedeon, beleaguered managing director of Caola, the Hungarian state-owned cosmetics and household chemicals manufacturer.

Competition from western multinationals since imports were liberalised at the start of 1991 has broken Caola's near monopoly, reducing the company's market share to 40 per cent. Turnover has fallen in step, the 1992 forecast of Ft4.3bn (£28.6m) representing a halving in real terms since 1990.

In toothpaste, for instance, three multinationals are battling for market share – and incidentally squeezing out Caola. Procter & Gamble has taken the lead with 30 per cent, with Colgate-Palmolive following strongly on 15 per cent and rising. Now Unilever too has entered the market with the successful launch of its Signal brand.

Caught in the middle, Caola has found its share of sales falling from 70 per cent to just over 30 per cent in two years. The company now claims to have stabilised its position and ironically, it is economic depression that has given the company its temporary reprieve.

When cash-strapped Hungarian consumers compare the western price tags with cheap local products on the shelves, enough of them economise to keep Caola in business – just. But Caola faces a new threat as recovery approaches. "We have to prepare for the time when people don't just want cheap products but have the money to buy better," says Gedeon.

In this refusal to give up lies a minor miracle. The surprise is not that Caola has been battered by western competition but rather that the company has survived and is even fighting back. Gedeon insists he relishes the competition. Caola languished in "stagnant water" while it remained a monopoly, he explains.

The company has pared down its product line from 800 to its 200 strongest items. It is now going on the offensive with the launch of Herlz, a range of pharmaceutical face and body creams named after one of the springs for which Hungary is famed.

But Gedeon admits that, for all his efforts, Caola needs a western investor to survive. "We could last two or three years alone but we don't want to wait." And time may be running out even faster than that: as Caola weakens, its attraction to western multinationals is fading.

Hungarians are economising

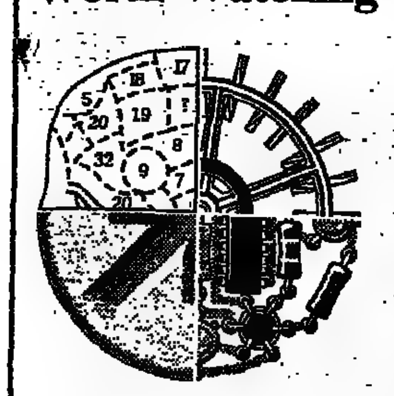
Caola may indeed already have missed its best chance. Colgate-Palmolive bid for the company last year but pulled out at the last minute, saying that the company's worth was vanishing along with its market share.

Since then, failure has continued to breed failure. Beiersdorf, the German manufacturer, has taken back distribution of Nivea and other products which had been licensed by Caola.

Most ominously of all, Caola's most dynamic executives are voting with their feet. Tamas Suto, Caola's go-ahead marketing head, now works for the competition – Colgate-Palmolive. "All the knowledge I had was wasted there," he says.

TECHNOLOGY

Worth Watching · Paul Taylor



Dry ice makes mark as a cleaning agent

AMONG the special properties of "dry ice", or solidified carbon dioxide, are its ability to change straight from a solid into a gas and to evaporate leaving no residue.

Distillers MG, part of the German Messer Griesheim industrial gas group, has devised a cryogenic system for industrial cleaning called Cold Jet which uses dry ice to loosen and remove surface coatings.

The Cold Jet cleaning system uses small pellets of dry ice which are blown in a stream of compressed air at the surface to be cleaned.

Thermal shock weakens the the bond of the coating or contamination, which is then removed by the compressed air flow and slight attrition effect of dry ice pellets. The pellets disintegrate on impact and sublime into a gas.

The system offers several advantages over conventional cleaning methods, including speed, lower waste disposal costs, and hygienically clean surfaces.

Distillers MG; UK 0737 241133. Messer Griesheim; Germany 49 211 43030.

Meter promises to track software use

COMPUTER software vendors lose an estimated 40 per cent of their potential revenue to software theft, euphemistically called "under-licensing." That particularly happens when customers, who usually pay a fixed fee for using software on designated hardware, run it on other machines.

Now US-based Proginet, a software developer for IBM mainframe host systems, has unveiled Software Meter, the first product that enables software vendors to record precisely how frequently and where their mainframe software is used.

Software Meter automatically monitors a customer's applications software use and produces a report listing the software product name, customer identification number, units of usage, frequency of use and platform size and type.

The information is relayed back to the vendor, by a telephone network link, and the vendor can then charge the customer accordingly.

Proginet; US, 516 228 6620.

Number crunching for slimmers

COUNTING calories and calculating nutritional values is an important, but often difficult, part of designing many diets.

The Comcard 'Nutrient Balance System' is the first self contained hand held diet and nutrition balance system designed for dieticians, doctors and community nurses. It runs on an credit-card-sized Integrated Circuit (IC) card which plugs into a pocket-sized Sharp 8000-series IQ electronic organiser. It contains a large and portable database of 41,000 nutritional values for almost 1,200 foods, with 35 associated nutrient values for each entry.

The system can prescribe, monitor and analyse diets. The software costs £99.99 and the Sharp IQ-8000 series start at £179.99. Comcard; UK, 0905 778957. Sharp: Japan, 06 621 1221; UK, 061 205 2333.

Ozone Kid makes videogame debut

THE Environment Detective, an educational videogame launched at the Earth Summit in Brazil, is intended to help children grasp environmental issues like recycling, deforestation, ozone layer depletion, and cleaning up after oil spills and nuclear accidents, writes Hilary de Boerr.

The Ozone Kid lives in Recycle City, and with the help of the videogame player solves problems at home and then further afield; the Amazon, the Antarctic, the Middle East. Developed in Norway, *the game is compatible* with leading home entertainment systems and will be available this autumn. Magicom Software; Oslo,47 244 5710.

Bill Hewlett talks to **Louise Kehoe** and **Geoffrey Owen** about building his company

Reflections of an electronics pioneer in Silicon Valley

"We had a good education and there weren't a lot of jobs around, so (we thought) why not try to start a business. So we did any work that we could get. We built a foul line indicator for a bowling alley, and a clock drive for a telescope, and just whatever came in the door."

Thus, Bill Hewlett recalls the early days of the Hewlett-Packard Company, one of the oldest surviving West Coast electronics companies. Today, Hewlett-Packard is a $14.5bn company, with nearly 90,000 employees; a leader in Reduced Instruction Set Computing (RISC) technology; one of the top manufacturers of computer printers; and to this day, a company that retains its roots in the electronic instruments business.

Now 79, Hewlett can still be found several days each week in his office at HP's Research Laboratories, only a few miles from the rented garage in which as young engineers he and David Packard set up shop in 1938.

As technology entrepreneurs, Hewlett and Packard set a trend that during the past half century has created, in California, the world's largest complex of high technology companies. They also established, from the beginning, a corporate philosophy based on openness and respect for the individual that has had a strong influence on the character of what is now known as "Silicon Valley".

Bill Hewlett explains in simple terms: "We didn't want to have a 'hire and fire' company. Both Dave and I were products of the Great Depression. We had observed its effects on all sides, and of course it had a strong effect on us. It could not help but influence our decisions on how a company should be run."

While layoffs have now become commonplace in Silicon Valley during periods of economic recession, the ideal of valuing employees' contributions above short term profits remains. A pragmatist, Hewlett acknowledges that "certain times you have to be that way, but we just didn't want that kind of a company." The kind of company that Hewlett and Packard *did* want gave employees a stake in the company's success. In the early days, they initiated a production bonus plan. "The same percentage was paid to the janitor as to the top manager," Hewlett recalls. Being egalitarian ensures that communications within the company are open, he believes.

Openness was another important tenet of the "HP Way". Hewlett chuckles as he remembers inviting a German competitor to visit the HP plant. When Hewlett returned the visit, he recounts, "he had to show me through his plant. He obviously *had never shown a person* through the plant in all his life and he didn't know what to do!" That started a policy which HP still adheres to and which has become a distinct characteristic of Silicon Valley. "You show competitors what you are doing they will learn soon enough. Just don't tell them what you are thinking!"

In contrast to today's entrepreneurs, Hewlett and Packard were determined not to "operate on borrowed money". "We started with a very small amount of money ($538) and we operated, as much as possible, on a pay-as-you-go basis, that our growth be financed by our earnings and not by debt."

Neither did Hewlett and Packard start out with a "grand vision", nor even the idea of commercialising a technology breakthrough, like many *of their* modern-day counterparts. "We just took on odd jobs," Hewlett recalls.

Some were odd indeed. They included the development of an optical device to automatically flush a urinal, as well as an *automatic lettuce thinner, designed to* thin out rows of vegetable seedlings. Before long, however, HP found its niche with a device invented by Hewlett during his post graduate studies at Stanford University.

The "audio oscillator", for measuring sound waves, gave HP its first commercial success. "We sent out flyers to some of the universities and to our surprise we got an order or two back, so we *sent out more flyers and we got* more orders and it looked like a good field to go into so we branched out into related instruments. So that is really how we got started." HP's first "big" order, for eight oscillators, came from Walt Disney for use in the production of the film Fantasia.

"Originally, electronics that word had not yet been coined radio engineering, we called it, consisted of the phonograph and the recording industry, the *telephone* industry, the talking pictures, and geophysical work. It was in those fairly narrow fields that we found our cus*tomers, as well as the universities.*"

The Second World War interrupted Hewlett's career, but it did not stunt the growth of his company. "I had a reserve commission. When I went into the Army, we had 17 employed, and when I came out I think we had about 250."

Although HP took on very little "war work", the company flour*ished on the growing awareness of* the importance of electronics. "What the war did do for us - it *made it evident that electronics* could be applied in many provinces. So all of a sudden you found it appearing all over. And we shared in this growth directly, because if you make something , you've got to measure it."

The war years established David Packard as the "manager" of the company, while Bill Hewlett took on the "engineering" role.

However, perhaps the most remarkable aspect of this half cen*tury partnership is that throughout* it the two men have remained friends as well as business associ*ates, spending holidays together as* recently as last year, and always regarding their roles at the com*pany as interchangable.*

In 1969-1971, when David Packard went to Washington to serve as deputy secretary of defense, Hewlett readily took over the management of the company until his partner's return.

It was in the mid 1960s that Hewlett-Packard took its first cautious steps into the computer business.

"Our customers were getting more sophisticated and a lot of them wanted to have something to control instruments and to take data from the instruments.

"This obviously meant a com*puter, so we got into the computer* business, not for data processing *per se*, but really as a controller for instruments. Later, HP researchers came up with the idea of a desktop calculator.

"It really was a computer, but we didn't want to call it a computer, because every company had a computer guru and all they wanted was *IBM*."

Even now that computers represent the lions share of HP's revenues, Hewlett seems to remain sceptical, although he is enthusiastic about HP's laser printers, "one of our most successful products".

He also remembers clearly and makes no secret of the ones that did not prove to be winners. "We tried to make a watch, *a computer watch*, and we sold it for $700. That was a disaster. It was a nice watch , you know, but we just couldnt make it for what our competitors could make it for."

But what of HP's future? Where will HP be five years from now? "I can't tell you," Hewlett states firmly.

"The longest planning period we've ever had was three years. We had a five year plan and didn't pay any attention to it. Three years is as far ahead as we could see. That says a lot about this industry. Its very hard its not like making railroad cars. You have to be flexible and roll with the punches."

"But I can tell you that I think we *are in a strong position.* We've got a good work staff, we've got good management and a good financial position. So unless we screw it up, I think we're in good shape."

Despite his advancing years, Hewlett remains very much involved in the company, albeit in an unofficial capacity these days.

"Dave (Packard) and I know enough people so we can find out what's going on when John (John Young, HP chief executive) may not *know it. And we bring these to* John's attention. Boy, he hops to it," says Hewlett with a grin.

William R. Hewlett, director emeritus: "We didn't want to have a 'hire and fire' company"

BUSINESSES FOR SALE

CONTRACTS & TENDERS

LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION No. 005284 of 1992
IN THE MATTER OF THE CONTINENTAL INSURANCE COMPANY (EUROPE) LIMITED
and
IN THE MATTER OF THE COMPANIES ACT 1985

[illegible]

Notice of Creditors' Meeting Administration Proceedings
ALINHURST LIMITED - IN ADMINISTRATION
LANDMARK ENTERTAINMENTS LIMITED - IN ADMINISTRATION
(Administration Order Made 24 April 1992)

[illegible]

No. 005267 of 1992
IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION
IN THE MATTER OF VIYAT HOLDINGS PLC
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

[illegible]

No. 004926 of 1992
IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION
IN THE MATTER OF P & P plc
- and -
IN THE MATTER OF THE COMPANIES ACT 1985

[illegible]

ONYL DE FALBE INTERNATIONAL LTD (IN LIQUIDATION)

[illegible]

COMPANY NOTICE

PORTUGUESE GOVERNMENT 3% EXTERNAL DEBT 1902

[illegible]

1ST SERIES BONDS

[illegible]

2ND SERIES BONDS

[illegible]

3RD SERIES BONDS

[illegible]

COMPANY NOTICE

NEW KLEINFONTEIN PROPERTIES LIMITED
(Incorporated in South Africa)
Reg. No. 01/00654/06
CAUTIONARY ANNOUNCEMENT

[illegible]

ART GALLERIES

[illegible]

CONTRACTS & TENDERS

FT LAW REPORTS

No undertaking for Sunday trading ban

KIRKLEES BOROUGH COUNCIL v WICKES BUILDING SUPPLIES LTD
House of Lords
(Lord Keith, Lord Ackner, Lord Goff of Chieveley, Lord Jauncey of Tullichettle and Lord Lowry):
June 25 1992

A LOCAL authority exercising its law enforcement functions can seek an injunction to restrain retailers from breach of the statutory prohibition on Sunday trading; and the court has a discretion whether or not to require it, as a condition of grant of the injunction, to undertake to make good any damage suffered by the retailer should the prohibition be invalid under EC law.

The House of Lords so held when allowing an appeal by the Kirklees Borough Council from a Court of Appeal decision that it was required to give an undertaking in damages as a condition of its being granted an interlocutory injunction to restrain Wickes Building Supplies Ltd from Sunday trading.

LORD GOFF said Sunday trading was prohibited by section 47 of the Shops Act 1950.

The ineffectiveness of prosecution to deter large stores from Sunday opening had caused local authorities charged with enforcement of section 47 to search for a more effective remedy. They had resorted to seeking injunctions to restrain stores from infringing the section.

Now stores were invoking EC law. The argument was that section 47 could not stand because, it was said, it was inconsistent with article 30 of the EC Treaty which was of direct effect and prohibited quantitive measures on imports and all measures having equivalent effect.

On May 14 1990 the council obtained from Mr Justice Mervyn Davies an interlocutory injunction restraining Wickes until trial from using premises in the Kirklees area for Sunday trading.

On the evidence before him Wickes had been trading on Sundays and intended to continue doing so unless restrained by the court. It was common ground that Wickes's Sunday trading was in breach of section 47 unless that section had been rendered ineffective by article 30 of the treaty.

The judge, applying the principles in *Hoffmann-La Roche [1975] AC 295*, held that since the council was engaged in law enforcement duties, he had a discretion whether to require it to give an undertaking in damages. He exercised that discretion against requiring an undertaking.

As a result of that decision many other local authorities obtained interlocutory injunctions restraining Sunday trading.

The Court of Appeal decided that the judge had erred in not requiring the council to give an undertaking.

The result was that large retail stores were trading on Sundays up and down the country, undeterred by the threat of criminal prosecution and unrestrained by injunction.

Section 71(1) of the Shops Act 1950 provided that it was the duty of every local authority to enforce the provisions of the Act "and for that purpose to institute and carry on such proceedings in respect of contraventions as may be necessary to secure observance thereof".

Section 222 of the Local Government Act 1972 provided that local authorities "in the case of civil proceedings, may institute them in their own name".

On the face of those two statutory provisions it appeared that proceedings in its own name by way of injunction were open to a local authority in order to secure observance of section 47.

The Court of Appeal required the council to give the undertaking because, first, it held that in English law the discretion to dispense with it was available only to give effect to a Crown privilege, and did not extend to local authorities exercising the function of law enforcement; and second; because under EC law an undertaking must be given where necessary to protect any EC law right of direct effect which might possibly be affected.

In *Hoffmann-La Roche* the secretary of state claimed an injunction restraining Hoffmann-La Roche from charging prices for drugs in excess of those specified in an Order approved by Parliament. The House of Lords held he was not required to give an undertaking in damages to recompense Hoffmann-La Roche in the event of the Order being invalid.

Previously it had been generally accepted that the requirement of an undertaking in damages as a condition of the grant of an interlocutory injunction did not apply in the case of the Crown. The origin of that rule lay in the fact that since the Crown was not liable in damages in the ordinary way, an undertaking requirement would be inconsistent with its immunity from liability. The Crown Proceedings Act 1947 had removed the justification for the rule.

The question in the present case was whether the *Hoffmann-La Roche* principle should apply in the case of public authorities other than the Crown charged with enforcement of the law.

The majority in the Court of Appeal concluded that it should not apply. Lord Justice Dillon said it was "a privilege of the Crown alone".

Hoffmann-La Roche did not confer a privilege on the Crown. On the contrary, it dismantled an old Crown privilege and substituted a principle on which, in certain limited circumstances, the court had a discretion.

It was difficult to understand why the same principle should not in similar circumstances apply to other public authorities when exercising the function of law enforcer in the public interest.

The breadth of section 71(1) of the 1950 Act was such as to embrace injunction proceedings brought under the power subsequently conferred by section 222 of the 1972 Act.

There was no material difference between the council in the present case and the Crown in *Hoffmann-La Roche*. The court's discretion to require an undertaking applied to public authorities exercising the function of law enforcement in the circumstances specified in *Hoffmann-La Roche*.

It followed that, apart from the question of the impact of EC law, such was the discretion which the courts should have exercised in the present case.

The Court of Appeal majority held that the court was bound by EC law to require an undertaking in damages from the council if an interlocutory injunction was to be granted. That conclusion based on the premise *inter alia* that if Wickes was right that section 47 was incompatible with article 30, it had a current right to open its stores for Sunday trading and it was the national court's duty to protect that right.

The question whether section 47 was inconsistent with article 30 had been referred to the European Court of Justice in *Torfaen [1990] QB 19*. In *Stoke-on-Trent [1984] AC 754* Mr Justice Hoffmann, interpreting and applying *Torfaen*, granted an injunction. Matters changed after the Court of Appeal decision in the present case. By the time *Stoke-on-Trent* came before the House of Lords, *Torfaen* had been followed by *Conforama (Case C 312/89)* and *Marchandise (Case C 332/89)*. The House felt compelled to make a reference to Europe.

If the European Court should hold in *Stoke-on-Trent* that section 47 was invalid as being in conflict with article 30, the UK might be obliged to make good damage caused to individuals by the breach of article 30 for which it was responsible.

It did not follow, however, that the council should be obliged to give an undertaking in damages as a condition of the grant of an injunction.

That was because the obligation (if any) on the UK to make good any damage suffered by Wickes would arise irrespective of any undertaking in damages.

In the circumstances, such an undertaking would be superfluous.

Wickes's argument that the council should be required to give an undertaking in damages had no justification in EC law.

For the council: Stuart Isaacs QC, Timothy Straker and Neil Caiver (Sharpe Pritchard for MRG Vause, Huddersfield).

For Wickes: Andrew Collins QC and Paul Lasok (Edwin Coe for Metcalfe Copeman Pettefar, Peterborough).

For the Attorney General intervening: Stephen Richards and Nicholas Paines (Treasury Solicitor).

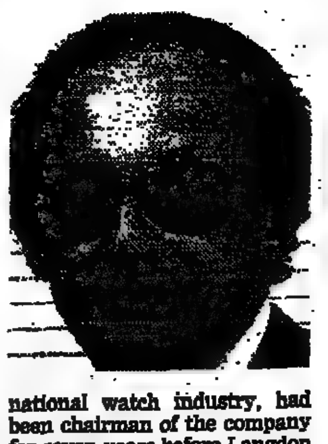
Rachel Davies
Barrister

Credit Suisse gold bar

Mask of Tutankhamen, Cairo

PEOPLE

Time Products turns the clock back



Richard Langdon, one of the City's veteran company doctors, is signing off from another of his former patients. He has handed back the chairmanship of Time Products to Marcus Margulies (right), whose family has been involved with the company for many years.

While Time Products, Britain's leading watch distributor, was never in as serious a financial condition as FNFC, another of Langdon's patients, it has benefited from his conservative touch at the helm. A former senior partner of accountants Spicer and Pegler, he took over the Time chairmanship in 1984 after the company had reported a big loss and cut its dividend following an ill-judged expansion into Hong Kong.

The 49-year old Margulies, a well known figure in the international watch industry, had been chairman of the company for seven years before Langdon was recruited. He said yesterday that Langdon had transformed his family-run company into a proper business. Although it is suffering like the rest of the watch industry, it has £20m of net cash, and its strength now lies in brand marketing and distribution rather than manufacturing, the cause of many of its previous problems.

Langdon, who is 73, has been shedding several of his directorships including the chairmanship of FNFC and deputy chairmanship of Chemring. However, he will remain a non-executive director of Time. Meanwhile, Frank Frame, a recently retired deputy chairman of Hong Kong & Shanghai Banking Corporation, has been appointed deputy chairman, and Keith Brooks, who has been responsible for building up Time's Sekonda brand, has been promoted to joint managing director. Roger Tsui, managing director of Remex, has resigned from the board following Time's decision to dispose of its Hong Kong trading operations.

Maples takes on Saatchi role

It sometimes pays to be on the winning side, even if you are a loser, as Chris Patten, the Tory party chairman who lost Bath in the UK's April general election learnt. He quickly became governor of Hong Kong.

Now another Tory loser, John Maples, formerly economic secretary to the Treasury and loser of the seat at Lewisham West, has also quickly picked up another job. He has been appointed chairman of yet another new Saatchi & Saatchi advertising subsidiary, this one to be called Saatchi & Saatchi government communications worldwide, or SSGCW.

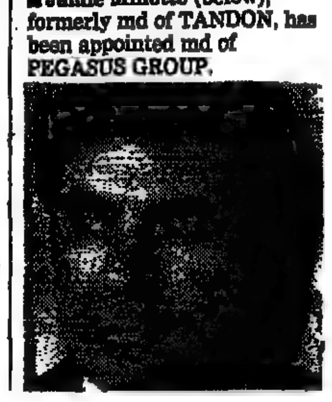
Few can forget the heroic role played by the Saatchi's in the Conservative party's regular election victories. Three executives have been seconded to assist Maples in his new role, which apparently will be to "deal with communications between governments and their people and people and their governments".

Saatchi & Saatchi group reported pre-tax losses of £58.4m for its last financial 12 months, and chief executive Robert Louis-Dreyfus is struggling hard to persuade those 300 group executives annually earning £150,000 and above to take cuts.

■ Michael Herson, formerly sales and marketing director of Greater London Supplies, and Richard Miles, marketing and development director of the branded restaurants division of Allied Breweries, have been appointed director of commercial development and director of operations, respectively, of PITMAN EDUCATION & TRAINING.
■ Michael Irvine has been appointed deputy md of REDIFFUSION SIMULATION; he joins from Electro-Optical and Data Systems Group of the parent company Hughes Aircraft Company.
■ Michael Churn has been appointed director, fuels marketing for MOBIL OIL; John Banfield, director lubes and commercial marketing, is to be appointed president designate of Mobil Oil bv based in Rotterdam.
■ Julian Agnew has been appointed chairman of AGNEW's on the retirement of Evelyn Joll, who remains a director.

Electronic switches

■ Walter MacGregor is appointed financial controller and company secretary of VTECH ELECTRONICS.
■ Ken Williams, former sales director of Case Communications, has been appointed European sales director of SCITEC.
■ Steve Debler, formerly vice-president of marketing at Progress Software, has been appointed to the same position at COGNOS.
■ Max Neubauer, formerly director of sales and marketing TRIUMPH-ADLER in Australia, has been appointed md of its UK subsidiary.
■ Jamie Minotto (below), formerly md of TANDON, has been appointed md of PEGASUS GROUP.



Crest Nicholson builds up its board

Bob Erith, who was the City's number one rated analyst of the building industry for more than a dozen years, has joined the board of Crest Nicholson, one of Britain's battered housebuilders, along with John Matthews, the merchant banker who helped advise Beazer on some of its biggest deals.

John Callcutt, who took over as Crest's chief executive a year ago, says that "both are not only well known financial men but are also well known for the knowledge of our industry". He said that Crest had consulted Proned, the body which promotes non-executive directors, about the appointments.

Erith, 53, a former senior partner of Savory Milln, is probably best known in the City for producing his annual building book – a tome filled with facts and figures about the industry. Although he has not been involved in analysing companies for some years – he is chairman of the equities group of Swiss Bank Corporation – he maintains close ties with the industry.

Erith has known Geoffrey Fox, one of Crest Nicholson's founding directors for over 30 years, and is deputy chairman of Erith, a family firm of builders' merchants. He said yesterday that Crest had got itself into "very much better shape" following its problems last year. It had written down the value of its landbank "very hard", and reduced its gearing.

John Matthews, 47, has had a less traditional career than Erith. Having been a senior director of County NatWest, he went on to become deputy chairman of Beazer, the acquisitive building materials company which was taken over by Hanson last year. He is currently chief executive of Financière Indosuez.

Exhibition/Susan Moore

Love, lust and voyeurism

Thematic exhibitions tend to be viewed with deep suspicion. If the theme is too broad, and crucial loans unforthcoming, they run the risk of being uneasy assemblages of disparate objects incapable of telling us anything new. Giulio Macchi's ambitious multi-media exploration of *Love: from Olympus to the Alcove* at Turin's Mole Antonelliana, is no exception.

From the first, the visitor is bombarded by a hotch-potch of images. The opening sequence, for instance, takes us from the 1970s and Robert Indiana's "Love" carpet to Guido Reni's "Eros" and the *seicento* in three paces, and sets a great Cranach beside a humble cupid on a candlestick. The visual confusion is disorientating, and made worse by the Mole space which allows one to see almost everything on each floor at the same time.

It soon becomes apparent that this is not an exhibition about art – as the slipshod captioning bears witness. This is art as document of cultural history, and it is a potted history to boot. Macchi alights on one promising line of enquiry only to flit to another. Nothing is pursued, nothing explained. Individual exhibits or sequences may be fascinating, but juxtapositions are less frequently illuminating than banal or simply baffling.

Enduring emblems of love set the scene. There are Venuses by Botticelli (sacred), Cranach (profane), Man Ray (bound), Arman (sliced), Yves Klein (blue) and Jim Dine (black). Boucher's is a cloud-borne confection strewn with pearls; Pistoletto's is almost submerged in a mound of old clothes. Hearts loom in abstract canvases or sit upon an outcrop of columns. Amorini come cast, carved and gilt, woven, painted, enamelled... Picasso's re-interpretation of Cranach is displayed but, inexplicably, on a different floor.

Leering over all is Enrico Baj's repellent maiolica relief of an embracing Cupid and Psyche, Psyche's shiny red tongue obscenely protruding. It makes a travesty of the tenderness expressed in the Antique marble version of the group on loan from the Capitoline Museum in Rome. Baj's monumental panel is the first of many depressing late 20th century images of love.

In "The Arms of Seduction" we glimpse the enchanted world of courtly love. Medieval and Renaissance ivory combs and wooden caskets present gardens of love and fêtes galantes. Menacing hints of alchemy and magic crop up in the weird fantasy landscape of Girolamo da Carpi. "The Pact" dips into the codes of behaviour sanctioned by society. We find a 15th century tract against marriage and Chagall's "Les Mariés de la Tour Eiffel" as a joyful celebration of holy matrimony.

An early 18th century sex manual, with illustrations treating the human body like fragments of classical sculpture, helpfully instructs its newly wed readers on the various combinations of genitalia of hermaphrodites. Bassano and Burne-Jones depict virtuous women. A 15th century birth salver depicting the Last Judgment stands in ironic contrast to the triumphalism of Valerio Adnai's 1970 "Les Joies de l'adultère".

"Intimacy Revealed" proceeds to unlock doors and rip off any number of brown paper wrappers. From the print room of the Uffizi comes a series of sexual fantasies by Fuseli, notorious but never exhibited. More schematic, works of reference even, are the couplings drawn by Francesco Hayez (he of "The Kiss", which is here too). Beside them is a more conventional portrait of his model and mistress sitting up in bed. Additional paintings and drawings by Picasso and Le Corbusier contrast the public with the private.

On general release, apparently for the first time, are frescoes, mosaics, sculpture and ceramics from the secret or "reserve" collection of antiquities discovered at Pompeii and Herculaneum. It is an extraordinary collection, interesting not least, as the catalogue essay reveals, in terms of subsequent attitudes towards it. Even the great Winckelmann was not granted access to the still shocking marble of Pan and the goat.

Next comes "Possession" – have not we had that already? – and violent abductions and violations, from illustrations of mythological rapes to André Masson's "L'enlèvement". The fury of these scenes contrast with the docile languor of the harem. This section offers up such curiosities as a 15th century chastity belt, and death masks of a rapist and a wife murderer made for Turin's long closed museum of criminal anthropology.

At the heart of the Mole's space-rocket interior is "The Theatre of Love". A series of beds are viewed to the sounds of great theatrical love scenes recorded by Luca Ronconi. From here the "siège d'amour" of around 1890 from an infamous Parisian brothel (was it really made for the Prince of Wales?) is only a footstep away. The cool classicism and unexpected comedy of Ledoux and Lequeu's projections of Revolutionary *maisons de plaisir*, make for a fascinating oasis before the latter part of the show's breathless romp around fetishism (shoes, leather), sadism (Dix), transvestism (Warhol), voyeurism and various homo-erotic acts. Surprisingly, the show has attracted neither the wrath of the Roman Catholic Church nor enthusiastic art lovers in dirty macs.

Thankfully we are cheered by the burlesque of the magic lanterns in "The Cinema of Love", and by the great love scenes of the silver screen. Nine extracts play continually, from Bunuel's *Un Chien Andalou* to *Zabriskie Point*. Around us Valentino, Garbo and Rita Hayworth smoulder from promotional posters.

The show closes on a note of purification with "The Triumph of Love". That proves another odd-ball assortment from Dante to Jim Dine, the latter's "Twins in the Forest" a life-size and roughly hewn Adam and Eve ornamented with spanners, saws, scythes and any number of tool-shed cast-offs. Gedditt!

L'Amore: Dall'Olympo all'alcova" continues at the Mole Antonelliana, Turin, until October 4.

Detail from 'Vénus et l'amour', 1949, by Pablo Picasso

Ballet/Clement Crisp

The Opening

Any evening in the dance theatre that ends with Maurice Béjart's *Rite of Spring* comes with a guarantee of impending doom, as we await the rutting animal capers that will bring the curtain down. But Wednesday night's triple bill by the Berlin Ballet was hell-bent from the first. To start a programme with Bill T. Jones' *The Opening* is to offer the most miserable activities as portrait of a company.

Purporting to deal with the Ballet after the destruction of the Berlin Wall, its only connection with that event is to show choreographic rubble as a parallel with the Wall's fate. There is a sound track (compiled by John Oswald) in which recordings of music used for dance at the Deutsche Oper are turned into a confetti of single bars, notes, phrases, that are, in certain super-brutish instances, layered one on another. It is a profoundly tasteless assemblage.

On a bare stage – with a golden figure from one of Berlin's monuments as back-drop – twenty-seven dancers wear a rag-bag of costuming from the theatre's wardrobe. They run, posture, trudge through snippets of their repertory as scrappy and insolent as the sound-track. Of choreographic scheme, invention, sense, I could discern no trace. A man and a woman indulge in a running fight. Fatuity rules. The piece is an affront to the Berlin artists and to the history of the company. How welcome and valuable would have been the revival of a work by Tatiana Gsovsky, an important and neglected choreographer who was the architect of the Berlin Ballet's rebirth after the war.

There followed Christopher Bruce's *Swansong*. This portrait of a man under interrogation – though Bruce has advised us that it might also be about the ardours of a dancer's life – is very popular with audiences. Its great merit is in the stunning role it has given Koen Onzia as the victim, and in a guest appearance, he repeats his customary triumph. It is a reading of dazzling physical resource, the ideas of terror and anguish marvellously exact in expression.

There is little that remains to be said about the Béjart *Rite of Spring*, which has been lumbering across the world's stages for the past three decades, save that it is a cleverly packaged sex-act which combines Disney-ish anthropomorphism with emotional blatancy. The boys are on heat; the girls are tremulously expectant. They meet. They couple. (The piece should be subtitled *Congress Dances*). The Berlin artists bounce and leap with a will, and behave as if it mattered. A programme note announces that these will be the last London performances of Béjart's *Rite*, since the maestro has decided to withdraw the work from the stage. Who says prayer goes unanswered?

The Berlin Ballet is at The Coliseum until July 4, with varied programming. Support for the season comes from Montblanc (UK).

Theatre/Malcolm Rutherford

A Winter's Tale

Adrian Noble's new production of *The Winter's Tale* at Stratford comes close to perfection. The play has always had its detractors, saying that it was good only in parts. In the 18th-century there were versions which omitted Leontes, the jealous king of Sicily, and his injured wife, Hermione, altogether. Recently I saw a version which cut out the part of Leontes' son, Mamillius.

Such cutting and carping have always seemed to me to be wrong. Noble's production proves that they are wrong on stilts. Nothing is omitted. Everything that has ever been seen to be good in the play is there: it comes out as a perfect whole. The attention to detail, without distracting from the wider piece, is remarkable.

It is often said that Leontes' jealousy when he decides that his wife is enamoured of Polixenes the king of Bohemia, comes on too suddenly and is therefore not credible. Here, as played by John Nettles, Leontes has all the marks of a man close to insanity. He drinks heavily at the opening reception, his speech becomes slurred and his behaviour violent and irrational: Quite clearly he is having a nervous breakdown.

This initial burst of realism does not undermine the play's subsequent magic. On the contrary, it reinforces it. If Lear retreats into madness, Leontes backs out of it as the young lovers take over. Essential to the romantic shift are the designs by Anthony Ward. These rely heavily on the use of balloons: sometimes balloons galore as when Autolycus (Richard McCabe) descends from the flies using them as a slow-moving parachute, sometimes balloons restrained. Seven-year-old Mamillius plays on his own with a red balloon in a scene reminiscent of a famous short movie. Instead of the chorus spoken by Time to indicate the passing of 16 years, a paper, arrives attached to another balloon.

Perdita, the missing daughter of Leontes, is played by Phyllida Hancock, who has grown up with a rural accent in common with the setting. But the old shepherd also picked up a lot of gold when he stumbled across the abandoned infant. The sheep-shearing party is not just a bunch of rustics. There is enough money about to pay for decent entertainment.

Between the court and the shepherds we have had the storm scene and the dumping of Perdita. Here is one of Shakespeare's strangest stage directions: "Exit Antigonus, pursued by a bear." Here the bear, like the back legs of the pantomime horse, ought to be credited. He has human characteristics in that he bends down and kisses the foundling before seeing Antigonus off.

Towards the end we return to realism. When Polixenes discovers that his son is about to marry a shepherdess, he unmasks himself and forbids the wedding. It is a reminder of Leontes' behaviour at the start, but there is a difference. This is genuine anger, not the act of someone approaching madness.

The final statue scene is done with Hermione at the front of the stage, her back to the audience, so that the audience watches the amazed faces of the court rather than wonders if Hermione will betray herself by twitching the odd muscle before time. But the rest of the production has been so good that the statue scene is less a dramatic climax than a fitting end. The ultimate pleasure, as always, is in seeing Paulina, delightfully played by Gemma Jones, betrothed to an equally urbane Camillo (Benjamin Whitrow).

Alastair Muir

Richard McCabe

Ludlow Festival/B.A. Young

As You Like It

As always, the heart of the Ludlow Festival is the open-air Shakespeare in the ruins of the Castle. This year, Alan Cohen's direction gives *As You Like It* a notably contemporary look. Designer Claire Lyth, with Adrian Gwillym, has provided costumes of our own day, with a touch of the military in the Duke's Court. Orlando's odes and elegies, duly spiked all over the plenteous greenery, are written on A4 sheets. Orlando himself (John Gordon-Sinclair) is a pleasant young man, faintly Scottish, whom you might see any day in a high-class soap.

It feels as if the audience has spilt on to the stage and carries on there as it does elsewhere in town. Maybe Shropshire's country copulatives would end up with fewer marriages, but they might be as well satisfied with Hymen in charge as the local Sir Oliver Martext. The emotions are, deliberately, I would say, not explored deeply. The talk between Celia and Rosalind prior to their leaving for Arden is kept mainly to their usual jokey attitudes. Victoria Wicks, an enchanting Rosalind, need only put a cap on to turn herself into a boy, for (since the days when she could only be a boy) no one, not even Orlando, has seriously had to believe that she is one.

Celia (Wendy Morgan) should have told Touchstone not to bring his golf-clubs with him, but Sylvester McCoy makes him whole-heartedly comic – most unlikely to give a speech about quarreling by the book, so he didn't. Bald, reserved Jaques (Ken Drury) would never learn real clowning from him, and chose better to join the converted Duke, who at least was never trivial.

Alex Hardy's Duke is in fact very positive, he might almost have been commanding UN troops in mid-Europe. His exiled brother (Robert Arnold) also likes to get things done, but more patiently. He was specially patient with Amiens, who sang Michael Gregory's awful settings of the well-known songs with appropriate lack of sympathy.

Such small matters never lowered the general feeling of comic do-as-you-please for long, and Victoria Wicks's delivery of the epilogue aroused proper enthusiasm.

There is more than Shakespeare in the Festival. There is a evening with Seamus Heaney, one with Simon Brett, one with Brian D. Barnes (as Pepys). There are organ, piano and violin recitals, concerts Bach's *Mass in B minor* will be sung in the parish church, and so will *Madam Butterfly*. There are fringe theatre and jazz. There is above all the lovely little town on the Teme, in the heart of the Housman country.

The Festival runs from June 27 to July 12, sponsored by national and local businesses and individuals. (0584) 872150

Musical/Richard Fairman

Do I Hear a Waltz?

The film *Summertime* is a regular in the repeat slot on television and it came around again not so long ago. There, amid the ravishing backdrops of sun-soaked Venice, are Katharine Hepburn and Rossano Brazzi, embarking on a summer romance that we know will end with smiles *shining through the tears*.

It is less well known that the same book also spawned a musical. Richard Rodgers's *Do I hear a waltz?* opened on Broadway in 1965 and ran for 220 performances, a short run by his standards. It was felt that the show failed because of the jaundiced view it takes of Americans on holiday, who are shown setting out with a couple of Italian phrases on their lips and little but a quick vacation romance on their minds.

This is the satirical cutting edge, aided by Stephen Sondheim's lyrics, which is brought to bear on what might otherwise have been a stickily sentimental plot. Still, there are some good tunes, too good to have been forgotten certainly; and Martin Connor's production for the Guildhall students caught nicely the intimacy of a show, which has no really big numbers but spends its time *sending romantic duos echoing* along the canals of Venice.

Among the travellers is Leona Samish, a thirtysomething single woman, not a loser, but not much money and no man, always alone in a crowd. Rodgers's music has given her romantic dreams, while Sondheim typically chips away at the pain within. Alice Macdonald did better by Rodgers, although by the end she had *also won sympathy for a* woman tricky to play in her very ordinariness.

Most of the big singing goes to the lead man (Sergio Franchi impressive on the original cast recording). Renato Di Rossi works in a tourist gift shop, though what he is best at selling is his affections. He loves Puccini,which Zubin Varla found a tall order; but he too made a success of a difficult role by catching the sincerity, the middle-age experience, the Latin charm of the man.

The caricatures of the other tourists, all "generous, never-fuss" Americans, are a gift. Elizabeth Chadwick and David Curtiz were the bright young couple, working hard at some *ambitious choreography by* David Toguri. Melanie Ramsay and Charles Edwards were spot-on as the older pair, him in business, her the gawky wife. Polly Moore made her mark as the owner of the pensione who scavenges on stray husbands among her guests.

In retrospect, what makes this musical worth seeing again is the unique match of its composer and lyricist. Just when Rodgers is indulging in *ballads which melt too easily* in the mouth, Sondheim is there, ready to turn hope into disillusion, relationships back into loneliness. As Leona remarks in one of her best songs, that is what the show is all about: the eternal couple, "life and me".

Performances continue until 9 July (Box Office 071-638 8891)

INTERNATIONAL ARTS GUIDE

The Guggenheim Museum in New York has re-opened with its exhibition space on Fifth Avenue more than doubled, after a $60m. programme of *restoration* and expansion which took two years to complete. The expansion has opened up parts of Frank Lloyd Wright's architectural masterpiece which were previously used as offices, enabling a much greater portion of the museum's collection to be put on view. A new ten-storey tower, based on Wright's original schemes for an annexe, has been added. Also making its debut is an international centre of contemporary art (SoHo) at 575 Broadway.

The inaugural exhibition, installed at both locations until August 27, is designed to show *the range and richness* of the museum's collection of 19th and 20th century art. The main museum has 250 works giving a chronological overview of modern European and American art, beginning with a selection of impressionist, post-impressionist and early Modern paintings – among *them works by Cézanne*, van Gogh, Gauguin and Picasso.

There are paintings and sculptures by Archipenko, Kandinsky, Klee and others who pioneered *European abstraction*, as well as Surrealist and Abstract Expressionist works from the Peggy Guggenheim Collection in Venice. Postwar art is represented by an international assortment ranging from Francis Bacon's Three Studies for a Crucifixion to *Jackson* Pollock's Ocean Greyness and Andy Warhol's Orange Disaster. The SoHo site unites modern masters with contemporary artists, under the title From Brancusi to Bourgeois.

Future plans include an exhibition, opening in *mid-September*, of 800 works of the Russian avant-garde at the time of the Bolshevik Revolution, together with seven murals created by Chagall for Moscow's *Jewish theatre* in 1920. Next Spring there will be a major presentation of iron sculptural work by Picasso, *Giacometti and others*. The main museum is open daily except Thurs; the SoHo museum is closed every Tues (423 3500).

EXHIBITIONS GUIDE

COLOGNE

Museum Ludwig Art for the *Home*: an exhibition of paintings from the homes of Cologne art lovers, who commissioned works privately from reputable artists. Ends Aug 9. Closed Mon

DUSSELDORF

Kunstsammlung Nordrhein-Westfalen Constructivist International 1922-27: more than 120 *paintings, sculptures and* designs which were first exhibited in Dusseldorf in the 1920s by European artists with utopian and revolutionary ideals. Ends Aug 23. *Closed* Mon

GENEVA

Cabinet des Estampes Dali – real or fake: a study of the authenticity of paintings and drawings attributed to the Spanish Surrealist artist, all dating from the early 1930s. Ends Oct 4. Closed Mon

Petit Palais Louis Valtat *and the* Fauves: 50 paintings, with a special focus on Valtat (1860-1952), a precursor of the Fauves. Ends Oct 30. Closed Mon

Galerie Patrick Cramer Marc Chagall and Gérald Cramer: 30 years of work and friendship. *The exhibition includes 40* etchings which the late Gérald Cramer edited for Chagall in the final years of the artist's life. Ends Aug 21. Closed Sun

Musée Barbier-Mueller Art of Benin: 30 bronze sculptures dating back to the 15th century. Ends Oct 13. Daily

LONDON

Royal Academy of Arts Alfred Sisley (1839-1899): 65 landscapes by the quintessential Impressionist. This is the first major retrospective of Sisley's work, spanning his entire career. Ends Oct 18. Also Summer Exhibition: the world's largest *contemporary art show*, including works by Clemente, Baselitz, Tàpies and Ellsworth Kelly. Ends Aug 16. Daily

National Gallery Manet: The *Execution of Maximilian. The* exhibition focuses on Manet's career as a political artist, and includes three large paintings (from Boston, Mannheim and London) of the execution of the Austrian Archduke Maximilian in Mexico in 1867, displayed together for the first time this century. Advance booking through First Call 071-497 9977. Ends Sep 27. Daily

Wildenstein & Co Marevna and Montparnasse: an exhibition *covering the work of Marevna* and her friends in the bohemian artists' colony at Montparnasse in the years 1912-42. Ends Sep 16. Closed Sat and Sun (147 New Bond Street)

Courtauld Institute Drawing in Bologna 1500-1600. Ends Aug 31. Daily

Tate Gallery *Richard Hamilton* retrospective. Ends Sep 6. Also Turner and Byron: 70 works exploring Turner's interest in Byron's poetry. Ends Sep 20. William Blake: the apprentice years. Ends Aug 16. David Hockney: Seven Paintings. Ends July 26. Daily

Barbican *The Celebrated City:* art works belonging to the City of London, including a rich selection of 17th century Dutch paintings. Ends July 19. Daily

Hayward Gallery Magritte. Advance booking on 071-928 8800. Ends Aug 2. Daily

LYON

Musée d'Art Contemporain Contemporary art from Poland: 700 works and more than 20 hours of video on loan from the Museum Sztuki in Lódz. Ends Sep 27

Musée des Beaux-Arts The Golden Age of Painting in Flanders and Holland: portraits and historical scenes by *Rembrandt, Rubens, Van Dyck* and others. Ends July 12. Closed Mon and Tues

NEW YORK

Metropolitan Museum of Art The Art of Islamic Spain: the first comprehensive exhibition on the subject, demonstrating the spectacular power of Iberian *Islamic arts from the 8th to the* 15th centuries. Included are 120 objects, from illustrated manuscripts and jewelry to ceramics, textiles, armoury and carpets. Ends Sep 27. Closed Mon

Museum of Modern Art Louis I Kahn: large-scale retrospective devoted to the *most important* American architect since Frank Lloyd Wright. Ends Aug 18. Also Antoni Tàpies (b1923): prints and illustrated books by the celebrated Catalan artist. Ends Aug 9. Closed Wed

The Drawing Center Guercino: an exhibition of 60 drawings on loan from Windsor Castle, *one* of the highlights of the international celebrations of the artist's 400th anniversary. Ends Aug 1

PARIS

Parc de Bagatelle Henry Moore: 27 large bronze sculptures in the kind of open-air landscape for which they were intended. Ends Oct 4 (Bois de Bologne)

Galerie Didier Imbert Henry Moore Intime. Ends July 24. Closed Sun (19 ave Matignon)

Le Louvre des Antiquaires Les jardins du Baron Haussmann: documents, plans and engravings showing Paris of the Belle Epoque. Ends Oct 4. *Closed Sun and Mon (2 place* du Palais Royal)

Musée Guimet From the Tagus River to the Chinese Sea: ceramics, porcelains and gold brocade bringing back the magic of Portuguese commercial links with the East Indies from 1513 onwards. Ends Aug 31. Closed Tues (6 place d'Iéna)

Grand Palais The Vikings. Ends July 12. Closed Tues, late opening Wed (ave du General Eisenhower)

STUTTGART

Neue Staatsgalerie Kandinsky: 180 watercolours and drawings from all periods in the artist's life, including many lent by private collectors. Ends Aug 2. Closed Mon

VENICE

Doge's Palace Hieronymous Bosch: *an exhibition* marking the restoration of the city's collection of Bosch paintings, including the Saint Liberata triptych, Paradise and The Assumption of the Blessed, plus works by Metsys and Flemish paintings by Dieric Bouts. Ends Aug 10

Museo Correr Canova sculptures and the Farsetti Collection from the Hermitage. Ends Sep 30

VIENNA

Kunstlerhaus God, Man and Pharaoh: 250 works spanning 4000 years of ancient Egyptian sculpture. Ends Oct 4. Daily

Schloßhof im Marchfeld The Baroque View of America in Hapsburg Lands: an exhibition showing how the European discovery of America 500 years ago stimulated the creative *fantasy of court artists and* craftsmen over the following two centuries. Ends Sep 13. Daily

Naturhistorisches Museum Bear Facts: a history of the teddy bear. Ends Oct 26. Closed Tues

ZURICH

Kunsthaus The pictorial world of Brazil: the European quest for an earthly paradise and modern Brazilian art. An exhibition showing the variety, power and development of Brazilian art from the *16th* century to the present. Ends Aug 16. Closed Mon

Museum Rietberg Buddhist and Hindu masterworks from Sri Lankan museums: 52 objects dating from the 6th to the 12th centuries, including a selection of bronze statues of Buddha and *Shiva. Ends Sep 13*

Graphische Sammlung der ETH Nik Hausmann: an anthology of Swiss lithography from the past 20 years, based on work carried out at Hausmann's atelier in the Jura hills. Opens on Tuesday, runs till Sep 4. Closed Sat and Sun

FINANCIAL TIMES

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Friday July 3 1992

Obligations at Lloyd's

THE GOOD news for Lloyd's of London is that Sir David Walker says there was no fraud or conspiracy behind the worst losses at the insurance market. The bad news is the list of unedifying or unwise practices contained in his committee's report on the business in which those losses arose, the LMX reinsurance market.

Some of those practices make one's hair stand on end. Inexperienced underwriters were writing reinsurance while in the dark about the risks further down the "spiral" of contracts. Instead of dispersing risk, the LMX spiral served to concentrate it, but no one at Lloyd's seemed to worry.

Though LMX business looked very profitable, enticing unwary Names into syndicates, it was persistently underpriced in view of the risks. The regulator's principal risk-monitoring tool, a limit on the premium income which Names can accept, exaggerates the impact of market swings rather than dampening them. To the extent that people thought it more effective than it actually was, a form of moral hazard was created.

Brokerage commissions appear to have been unrelated to the scale of effort and risk involved for the broker. Working members in general did steadily but modestly better than outside Names, and some categories of market insiders in some years obtained a degree of preferential performance that was "more than modest, which was immodest". Underwriters on profitable syndicates routinely offered membership to brokers who could bring in business, but denied it to outside Names.

Some members' agents seem to have taken "a very lax view of their fiduciary duties": adopted a cavalier approach to Names; ignored their instructions; failed to appreciate LMX risks or pass on warnings about them; failed to assess the suitability of those risks for their Names; and may have put their own interests ahead of their duty to Names. Members agents were not – and are not – sufficiently attentive to Names. Standards for registering members' agents were insufficiently rigorous.

Some managing agents failed to supervise their underwriters properly. Lloyd's started examining the performance of managing agents too late in the day. The market view that one or more major LMX underwriters were inadequately protected from a major catastrophe did not reach the regulators. Lloyd's has been a passive regulator, not a pro-active one. Worst of all, without changes to Lloyd's, "the committee do not have confidence that problems of the kind experienced with LMX business could not recur".

The committee thus proposes detailed recommendations for reform, some of which – such as the introduction of risk-weighted underwriting limits – are sweeping. The Lloyd's council should introduce them without delay, along with the separation between regulation and market leadership recommended by Sir Jeremy Morse's committee.

Does the failure by the Lloyd's authorities to prevent these practices justify a wider sharing-out within Lloyd's of losses incurred? It is hard to make such a case in relation to Lloyd's failure to spot the business misjudgments of managing agents and underwriters. There is a stronger case, however, when considering those affected by the lax practices of members' agents.

That is not how Lloyd's sees it. It is offering only hardship assistance, and is leaving its members to sue managing agents and members' agents where they think they have a claim. Suing Lloyd's itself has been made more difficult by yesterday's decision in the Oakeley Vaughan case that Lloyd's owes no legal duty of care to Names. In the light of Sir David Walker's report, it should consider seriously whether it owes a moral one.

A cut too late

FOR SOME months now, Wall Street has been treating bad news as good news. Anything suggesting that the economy was weak would bring forward yet another rate cut, and that must be good for stocks. On Wednesday the news of an unexpectedly weak survey from the National Association of Purchasing Managers was greeted in just this spirit. Yesterday came the news of employment, and an actual cut in the official discount rate, which is the Federal Reserve's wordless admission that it is worried; but this time, the markets decided, after an initial Pavlovian rise, that the news really was forbidding, and fell again.

Even if it is not sustained, this was a telling break in bull market psychology. The bad news is partly economic, though the evidence here is not conclusive, and partly political. Whether or not the renewed weakness of orders and employment is a sign of a triple-dip recession, as New York pessimists now believe, it is undoubtedly bad news for President George Bush. The odds are now against an economic revival strong enough to revive the president's weakening popular support before the November election. The market, which is vulnerably high after its strong showing in recent months, now faces political as well as economic uncertainty.

Both the Fed and the market were right to attach the greatest importance to the employment figures rather than to orders or survey results – let alone the still-rising official leading indicator. The Fed's latest rate cut will no doubt be denounced as too little, too late – privately by the administration and publicly by some of its supporters. But with short rates now low even by historic standards (well under half the European norm), and with the dollar drastically undervalued, it is hard to believe that an earlier cut, or a slightly bigger one, would have made very much difference. Rate cuts and devaluation have marked attempts to pull the economy up by its own boot straps, assisted by an effort to export recession. The new figures suggest that the boot straps are now too short to grasp, and that recession is being re-imported.

US growth is being hampered by a debt work-out, which limits capital spending both by companies and individuals, by defence cuts and by the stagnation of real average earnings. The downturn has been intensified by the efforts of employers to cut costs, which has damped employment even as output has been recovering.

Any hope of faster recovery has rested first on net exports, which have accounted for more than half the economic growth of the last five years, and on a revival of job growth, and thus of consumer income and confidence. The latest figures disappoint both these hopes. Export order growth turned down sharply in the NAPM survey, and now payroll employment and working hours have turned down.

None of this means that the US economy is in renewed recession; the British government would give its eye-teeth to be able to report a similar picture of rising output with near-zero inflation. But the staying power of this slow revival is now in question; the downturn of nearly 1 per cent in non-military order books, excluding aircraft, is especially suggestive.

The American news is bad enough to be bad for all its trading partners, who had been looking to US demand to revive their own economies. President Bush may get an unusually sympathetic hearing when he calls for stimulus at Munich next week; but sympathy will not be enough, and the Fed's example remains a lonely as well as a cautious one.

FW's Rubicon

PRESIDENT F.W. de Klerk's speech last night may well prove to be as momentous as his landmark address in February 1990. On that historic occasion he set the stage for the release of Mr Nelson Mandela, leader of the African National Congress, and Mr de Klerk's subsequent partner in South Africa's transition from apartheid to democracy. Two and a half years later it seems that the partner has become the adversary. Over the past few days both sides have thrown down the gauntlet: the ANC when it launched a mass action campaign designed to force Mr de Klerk to concede in the streets what he will not concede at the conference table. Last night it was Mr de Klerk's turn. He understandably rejected an ANC takeover by street power, but failed to recognise that, wherever the blame lies, his government has within its means the capacity to tackle the violence that scars South Africa. The old battle for power is rejoined and unless both sides step back only a pyrrhic victory can be the outcome.

It may now be too late for the two sides to come together to talk. The point has perhaps been reached where South Africans need to be saved from themselves. The offer of mediation made by the UN secretary general, Mr Boutros Boutros Ghali, should be picked up.

Next week's G7 summit will seek ways of reducing the threat from Soviet-designed nuclear plants, says Clive Cookson

A move away from meltdown

Growing alarm about the defects of Soviet-designed nuclear reactors has prompted western leaders to draw up a wide-ranging emergency programme, intended to make the plants safe before there is another Chernobyl-type catastrophe.

The Group of Seven summit meeting in Munich next week is expected to approve a short-term action plan, which would involve spending several hundred million dollars on the 25 most hazardous reactors – in Bulgaria, Czechoslovakia and three former Soviet republics: Russia, Lithuania and the Ukraine. This could lead to a more extensive long-term programme, with cost estimates running between \$5bn and \$20bn, to bring all reactors in eastern Europe and the former Soviet Union up to western safety standards.

Although the 1986 Chernobyl disaster had shown the shortcomings of Soviet-designed nuclear plants, the awesome scale of the problem only became apparent as the Soviet bloc unravelled during 1990. That enabled western experts to examine the reactors in detail.

Soon after German reunification, the government in Bonn closed down the four Soviet-designed pressurised water reactors (PWRs) it inherited at Greifswald on the Baltic coast. Then, early in 1991, the International Atomic Energy Agency (IAEA) urged the Bulgarian government to take immediate action to improve safety at four similar PWRs at Kozloduy. Quite apart from the basic design defects, notably the absence of an emergency cooling system and containment to enclose the reactors in an accident, IAEA inspectors found that management and workers were too demoralised and incompetent to run the plant properly. Even the basic operating manuals and plant drawings had been lost.

Kozloduy itself is a safer place today. A team of 20 nuclear specialists from western Europe has been working there for almost a year, with funding from the EC and technical co-ordination from the World Association of Nuclear Operators (Wano), to improve the management and operation of the plant. But no one has started to tackle the fundamental flaws in the Soviet VVER 230 reactor design.

Elsewhere in eastern Europe and the CIS, there still has been virtually no practical action to solve even the most urgent short-term safety problems. The past 18 months have seen countless visits to Soviet-designed power stations by different western organisations – nuclear utilities, equipment manufacturers, regulatory bodies, and international organisations – all looking for research and commercial opportunities and often working at cross purposes.

Mr Morris Rosen, director of the IAEA nuclear safety division, says the initiatives are uncoordinated and often dictated not by need or importance "but solely by the desire of donors to participate. Representatives of east European countries question whether assistance is focused on their needs or on donor research and commercial interests."

"Up to the present time the west has shown no inclination to improve the safety of Russian reactors," says Lord Marshall, former head of the UK's Central Electricity Generating Board and now Wano's chairman. "They have only shown an inclination to analyse safety from their own point of view."

Meanwhile potentially serious accidents continue to occur. Mr Viktor Sidorenko, Russia's deputy atomic energy minister, said in Moscow this week there had been two incidents last year and two more in the first half of 1992 that were rated at level 3 on the 7 point international scale of nuclear accidents ("serious fault involving loss of protection or heavy pollution or radiation of personnel").

A radiation leak last March from one of the four Chernobyl-type RBMK reactors at Sosnovy Bor near St Petersburg gave western governments a new sense of urgency. The outcome is the emergency programme drawn up for the Munich meeting next week, which is intended to provide both co-ordination and substantial non-commercial funding. Most of the \$700m-\$800m required will be provided by the G7 members.

The programme will concentrate on the 10 VVER 230 reactors (in Bulgaria, Czechoslovakia and Russia) and 15 RBMKs (in Russia, Lithuania and the Ukraine) which have the most serious design defects. The remaining 32 Soviet-designed PWRs are more modern and come closer to meeting western standards.

Eastern Europe's big nuclear clean-up

1. BOHUNICE 2. DUKOVANY 3. PAKS 4. KOLA 5. SOSNOVY BOR 6. BELOYARSK 7. KALININ 8. SMOLENSK 9. BALAKOVO 10. NOVOVORONEZH 11. IGNALINA 12. ROVNO 13. SOUTH UKRAINE 14. KHMELNITSKI 15. ZAPOROZHE 16. CHERNOBYL 17. KOZLODUY 18. KURSK

Most of the work should be completed within two years. It is intended to provide:

- Improved operational safety through better staff training, management procedures, technical manuals and so on.
- New hardware such as back-up diesel generators, computerised control rooms and fire walls.
- Nuclear regulators, independent of the plant operators, with powers to inspect reactors and shut them down if necessary.
- An overall energy strategy, which will enable each country to assess its need for nuclear power in relation to other energy sources.

The organisational details will not be settled until the G7 leaders meet next week. The EC countries favour a genuinely multilateral programme run from an office in Brussels, while the US and Japan prefer bilateral assistance – with a coordinating mechanism to ensure that all the necessary work is done without wasteful duplication.

In the discussions running up to Munich the UK government has been particularly keen to divorce the emergency assistance, which it sees as a non-commercial safety precaution, from the commercial issue of upgrading the more modern Soviet-designed reactors to international standards and building new ones to operate well into the next century.

"Investment in such stations should await the results of the energy studies and the introduction of economic pricing," said Mr Timothy Walker, head of the atomic energy division at the Department of Trade and Industry. "The decision on which and how many should be upgraded needs to be made on an economic and commercial basis in the light of alternative ways of meeting energy demand."

So the G7 meeting will point out the need for a long-term upgrading programme – and may ask the World Bank and the European Bank for Reconstruction and Development to work out a a way of funding it through commercial loans – but the seven leaders are in no mood to commit the west to spending the \$10bn required.

Mr Andrei Konoplyanik, deputy minister for fuel and energy, made it clear this week that the Russians too are wary of grandiose proposals whose "major benefits will be received by western producers of nuclear energy equipment." They know that western manufacturers, starved of orders from their own nuclear-shy utilities, are looking forward to a feast in the east. Siemens of Germany, Framatome of France and Westinghouse of the US have been particularly active.

But Mr Konoplyanik, who will be accompanying President Boris Yeltsin to Munich, says Russia would be prepared to accept western assistance with a long-term energy programme involving the closure of the RBMK and older VVER reactors over the next decade, expansion of non-nuclear generating capacity and "joint creation of a new generation of highly safe nuclear power stations on the basis of Russian R&D." He estimates its total cost at \$24bn over 10 years.

Even the G7's emergency programme may be unacceptable to the Russians. The west does not want Russia to use its assistance to keep dangerous reactors going indefinitely. But if it demands a firm commitment to decommission the RBMKs and VVER 230s as quickly as possible, the Russian atomic energy ministry, new home of the old Soviet nuclear establishment, will object.

Mr Sidorenko made it clear that, while Russia has no plans to build any more RBMKs, it is not ready to close the existing plants. And it is going ahead with the construction of three new VVERs.

Even the most zealous anti-nuclear campaigners accept the region is too short of electricity to close down the most dangerous plants immediately.

The power shortage is most acute in Bulgaria, which relies on Kozloduy for 35 to 40 per cent of its electricity. Its vulnerability was underlined last February when faults shut down two of the reactors – and consumers throughout the country had their electricity cut off for two hours in every four.

Elsewhere, the nuclear share of electricity generation in 1991 was 51 per cent in Hungary, 45 per cent in Lithuania, 28 per cent in Czechoslovakia and 25 per cent in the Ukraine. (The comparable figure for the UK was 20 per cent.) In Russia as a whole nuclear plants generated 12 per cent of electricity, but the share is considerably higher in industrialised European part of the country – where there is no spare non-nuclear generating capacity.

However Greenpeace maintains that all 15 RBMK reactors in the former Soviet Union could be phased out of operation within five years, by building new gas-fired power stations and persuading consumers and industry to waste less energy. Energy prices are still well below world levels and most Russian households have neither electricity meters nor thermostats.

The atomic energy ministry admits that Russians waste a lot of electricity but says the country lacks the technical resources to increase efficiency nearly as fast as Greenpeace claims is possible.

Most Russian nuclear engineers remain proud of their achievements – and reluctant to admit that the RBMK has the fundamental design flaws identified by their western colleagues. But they recognise that its demise is now inevitable.

Entek, the R&D Institute for Power Engineering in Moscow, now believes the best way to maintain an active Russian nuclear industry is to develop a "radically new nuclear technology – one that is capable of resolving the fuel and power problems the whole world will face in the next century."

Entek's favourite candidate is a 1000MW fast reactor cooled by molten lead, which its scientists say could be developed within a dozen years. For anyone concerned about the present generation of Soviet-designed plants that may sound an alarming proposition, but the engineers insist the lead-cooled reactor would be safer than anything on offer from the west.

Joe Rogaly

Where the bus stops

When the Conservative government was re-elected on April 9 it was put about, with no resistance from Downing Street, that bliss was it in that dawn to be alive.

We were, it was said, about to enter a period of everlasting prosperity and near-zero inflation. A wave of confidence, previously held back by fears of a Labour victory, would wash over the economy. The British presidency of the European Community would crown the year. A mere 85 days later it all seems to be going wrong. Mr John Major is struggling to save his European strategy. The economy has failed to resurge. The recession is beginning to look endless.

In such moments of gloom politicians' thoughts turn to the ancient question – who would become prime minister if the incumbent met with an accident, political or otherwise? The charming English way of putting it is, "who is the bus candidate?" – who gets the job if the prime minister is run over by a bus? For the moment, I suspect, it is Mr Kenneth Clarke. Do not mistake me. Mr Major is performing well, perhaps never better than under fire in the Commons this week. It is exceedingly unlikely that he will be brought down by either the recession, or Maastricht, in spite of Lady Thatcher's onslaught yesterday afternoon. Yet his twin strategies of dovishness on the EC and hawkishness on inflation *could* fail. What then? His two immediate lieutenants, the foreign secretary and the chancellor, are direct accomplices, so rule them out as bus candidates.

We are back to Mr Clarke. He has the look of a man who was slightly bewildered when he found on April 10 that he was home secretary. He was still busy shaking up the health service when, late in the summer of 1990, the then Mrs Thatcher moved him to education. He recovered from that. Then education needed turning upside-down. He knew how to do that, too.

The Home Office is more complicated. In continental Europe it would be a ministry of the interior; in the US the Justice Department. In Britain neither model is acceptable. US federal law is an alien concept. The overriding powers of an interior ministry are regarded as un-English. Mr Clarke's office is a rag-bag, taking on what other domestic departments decline. It handles petitions to the Queen, grants licences for scientific experiments on animals, and supervises cremations, burials and exhumations. Mr Clarke is putting the electoral boundaries bill (the bill to create 15-20 more Conservative seats) through the Commons now and will doubtless one day be saddled with a Sunday trading free-for-all bill. He has a good track record for handling troublesome measures of this kind.

What the public expects of Mr Kenneth Clarke is safe streets, punished criminals and no immigrants

Some of the organisational mess has already been tidied up. Responsibility for the press and broadcasting has gone to Mr David Mellor's new ministry for having a nice day. Mrs Gillian Shephard's employment department now looks after the Equal Opportunities Commission. The administration of magistrate's courts has been transferred to the lord chancellor.

What the public expects of Mr Clarke, however, is safe streets, punished criminals and no immigrants. As to the latter, he believes strongly that tight controls on immigration are an essential prerequisite for good race relations. I think laws to keep blacks out encourage racialism, but, alas, this view does not prevail. The English capacity for pretending that immigration laws are non-racial is infinite. Mr Clarke, whose view of the law is that it should be genuinely colour-blind, will extend the remit of the asylum bill that was withdrawn when the election was called. He agrees that racialist attitudes among immigration officers must be curbed, but asserts that would-be illegal migrants try on so many dodges that it is little wonder that officials are jaded. Whatever he does is likely to cause a row.

Crime is even more tricky. Since 1980 the Tories have spent £1bn on new jails. The new criminal justice act is designed to keep non-violent offenders out of them. Yet prisons will still be overflowing in the year 2000. Mr Clarke sees an inconsistency in a Tory government cutting the prison population for reasons of economy. He has to live with this. But he may try to economise by privatising more prisons. He will appoint a quasi-independent chief executive to manage the public part of the service, whose administration is due to move to its own premises. The police will be reorganised into larger units and may be diverted from non-core tasks, such as supervising football matches and writing traffic tickets. Police authorities will be reformed, he knows not yet how.

All this should endear Mr Clarke to the rightwingers who are beginning to set their sights on Mr Major. They should beware. The home secretary is loyal to the prime minister. He is also a convinced European, favouring the EC, European Union, Emu, single currency and all. That should stop their bus.

France's boy-next-door finds himself offside

The publicity is turning sour for Bernard Tapie, the unusually popular businessman and politician, writes Alice Rawsthorn

For the past few weeks it has been difficult to find a French newspaper or magazine which does not feature the suntanned, smiling face of Mr Bernard Tapie.

The smile was Mr Tapie's signature during his rise in the 1980s as one of France's most flamboyant businessmen and politicians. It now seems out of place, given the gloomy nature of the latest round of Tapie news. There was a barrage of publicity last month over his resignation from the French cabinet, and another this week about the problems of Bernard Tapie Finances (BTF), his ailing business empire. And there will be another stream of stories after a French commercial court today considers the fraud charges brought against him by Mr Georges Tranchant, his former business partner.

On any objective analysis it is extraordinary that Mr Tapie should attract so much attention. He styles himself as a successful entrepreneur. But BTF is struggling for survival. He is also presented as a crusading politician. But his political record has been distinguished mainly by the rarity of his appearances at the National Assembly and by the brevity of his seven-week cabinet career.

Why then does the chairman of a middle-sized company with a short stint as a junior government minister generate so much publicity? The answer is that Mr Tapie is a populist and populists are rare in French business and politics.

"He is the boy next door who has made it to the top," says Mr Michel Gonod, political editor of Paris Match, one of France's biggest selling weekly magazines. "Bernard Tapie is brash. He has a big mouth. He speaks the same language as the blokes in the local bistro."

Mr Tapie, 49, has played his "boy next door" ticket for all it is worth. He is the son of an engineer who was raised in a small house – no hot water, no inside loo – in the insalubrious Paris suburb of Bourget. He made his fortune in the 1980s as a wheeler-dealer by buying bankrupt businesses and quickly selling them, until in 1990 he bought Adidas, the German sporting goods group.

At the time Adidas looked like the coup of Mr Tapie's business career. It may yet prove the death-knell. Mr Tapie bought Adidas for FFr2.2bn (£223m) funded by short-term loans. He has since had to sell a string of Adidas subsidiaries, a chunk of his own holding and most of BTF's original businesses to pay off the loans.

Mr Tapie is about to make the final FFr615m payment for Adidas. But BTF still has its own long-term debt – which stood at FFr3.64bn at the end of last year. It is questionable whether Mr Tapie can afford to hold on to Adidas. Under his ownership it has been racked by industrial disputes and has failed to regain its lost momentum in a competitive market. It reported a fall in profits from DM90m (£31m) in 1990 to DM44m in 1991. There is no shortage of suitors: BTF is considering three offers for its 56 per cent controlling stake.

His political career is also in the doldrums. He entered politics in 1989, standing as an independent but siding with the Socialists. He made his mark at the end of that year by trading insults in a television debate with Mr Jean-Marie Le Pen, the pugilistic head of the extreme rightwing National Front. This media success sealed Mr Tapie's friendship with the French president and Prime Minister Pierre Bérégovoy, both of whom championed his cabinet appointment.

Mr Tapie has now left the cabinet because of the Tranchant court case. The case itself is relatively minor: it is a civil, not a criminal suit. But it gave Mr Tapie's Socialist critics the excuse to squeeze him out. They dislike him for the same reason the people like him – his personal style.

'Politics is seen as something which should be remote from the grubby world of business'

Mr Tapie revelled in his fame. He appeared on television crooning with Mr Sacha Distel, the veteran singer. He bragged about his business exploits in a book entitled Gagner! (Winning!). He became chairman of the Olympique Marseille football club in 1986. He posed for the press, a gold medallion gleaming on his chest, beside his Porsche or on his yacht. In short, he behaved as Mr Godot's "blokes in the local bistro" would if they were millionaires.

Such behaviour is unremarkable in the US or UK, where self-made men are common in corporate and political life. But in France it is difficult for outsiders to get to the top.

One reason is the preponderance of family-controlled companies. Many of France's most famous corporations – Michelin, Peugeot, Pernod-Ricard and Club Mediterranée – are in family hands.

Another factor is the influence of the state, which not only controls many of the biggest companies but also appoints their chairmen. The appointees tend to have had a classic civil servant's education at the elite grandes écoles, notably the Ecole Nationale de l'Administration (ENA). Ms Leslie Mitchell de Quillacq, writing in Powerbrokers, her recent book on the French financial elite, found that half of the 124 most powerful people in French finance went to ENA, and two-fifths attended one of three Parisian lycées.

The personalities of France's top businessmen reflect their backgrounds. The role models include Mr Michel Albert, chairman of the AGF insurance group, who has published philosophical treatises on the future of French capitalism.

Even the handful of self-made men, such as Mr Bernard Arnault, chairman of the LVMH luxury goods group, and Mr François Pinault, architect of the Pinault distribution company, conform to type. Mr Arnault likes to stress his interest in classical music. Mr Pinault is fond of quoting his philosopher friend, Mr Bernard-Henri Lévy, in interviews.

Such traits may help them to make themselves acceptable to the French establishment. But a mainstream magazine like Paris Match is more interested in Mr Tapie's football triumphs, than Mr Albert's ideas on capitalism.

Mr Tapie stands out in the political sphere for the same reasons. A string of senior socialists went to ENA, including Mr Laurent Fabius, Ms Elisabeth Guigou and Mr Michel Rocard. Almost all the rest come from the public sector or the professions. Mr Tapie is a rare businessman.

"There is no tradition of mixing business with politics in France," says Mr Serge Raffy, senior editor of Le Nouvel Observateur, the weekly news magazine. "Politics is seen as something clean and classical, which should be as remote as possible from the grubby world of business."

The Socialists fall into two camps: the bohemian gauche caviar, led by Mr Jack Lang, the arts minister; and the austere Enarchs, the graduates of the ENA, typified by the cerebral Mr Fabius. "They are so elitist; all from the same bourgeois background and the grandes écoles," says Mr Gonod of Paris Match. "Mr Tapie does not fit in. That is why the French people like him."

Mr Tapie seems aware of this. A few weeks ago he went to give a speech at Saint Cloud country club on the outskirts of Paris. The club's staff asked him to leave, because he was not a member. He roared with laughter, saying the incident proved that he was not, and probably never would be, a member of any club.

LETTERS TO THE EDITOR

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Alternative view of figures at BSkyB

From Mr Christopher Bland.

Sir, Raymond Snoddy's passing remark about BSkyB in his article, "BBC and Sky talk on news service" (June 30), that BSkyB "is now profitable, although that has been achieved by writing off close to £1bn of excess costs" cannot be allowed to go unchallenged. I find this new profitability difficult to believe – unless, of course, you invent a new measure of profitability that excludes the disagreeable bits, like interest.

The truth lies, as it should, in the published figures. According to the accounts, BSkyB lost, excluding exceptional items, £294m in the 37 weeks to 30 June 1991, close to £8m a week. Its interest burden (which cannot be written off or otherwise ignored) was £3m a week. BSkyB appears certain to record another huge loss in the 52 weeks to June 30 1992, which will further increase its £1.5bn cumulative deficit.

In addition, the accounts reveal a negative net worth of £1.2bn.

Future programme rights contracted (but not provided for in the accounts) of £530m – increased since June 30 1991 by a further £420m to £950m. It seems unlikely that these figures include the commitment to pay the Premier League in excess of £200m during the next five years. (Was the Premier League astute enough to ask for guarantees from BSkyB shareholders?)

Additional shareholder financing available of £200m; all but £33m of this has already been drawn down, which suggests that cash has continued to flow out at around £3m a week in the past 12 months.

Outstanding lawsuits pending or threatened by Tatung (UK), Ferguson, Oy Nokia AB, Philips International and others, aggregating to a total of £100m. (These are not provided for in the accounts, and are being vigorously resisted.)

Against this background, the directors' statement that "the group will not achieve significant net operating cash inflows or net operating profits before 1994" seems entirely believable.

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UK manufacturers must be given motive to invest

From Mr R P Bull and others.

Sir, The government's declared intention of "enabling" industry in its expansion and contribution to the economy would seem to be seriously in question. Such a view is illustrated by the continued run down of manufacturing through the recession and the lack of confidence industry has in the government's industrial policy.

Our association represents some 300 machine tool manufacturers and suppliers in the UK in an industry which is at the very heart of the UK's manufacturing base. Our point is that if the UK is to continue to have a viable manufacturing industry we must provide the best possible environment for industry to invest in the latest machine tool technology. This is particularly necessary during a recession. Without investment we have little hope of competing in world markets or of sustained economic recovery, and the proposals we have outlined to the government would only ensure a level playing field and would not constitute subsidy or the picking of winners.

We note that last week the Japanese government proposed a package of support measures for small businesses and tax breaks for investment as a result of the economy failing to reach its 3.5 per cent growth rate.

In spite of orders for machine tools in the UK having fallen by 50 per cent in the past two years, and the OECD forecasting that in 1992 the UK economy will grow at less than one third the rate of other G7 nations, there seems to be little attempt to boost the confidence in UK industry or consumers.

We welcome lower interest rates and lower inflation but these on their own are not enough. Manufacturing industry needs the motivation to invest and the confidence to be able to take long term views and decisions. We call upon this government to act immediately to create the right environment that will enable UK manufacturing to play its essential role in the recovery of the economy as a whole.

R P Bull, *president, Machine Tool Technologies Association,*

Mr A P Balding, managing director, Bauser Engineering; Mr J L Bloxham, managing director, Cincinnati Milacron UK; Mr M Bright, chairman, Flexible Manufacturing Technology; Mr M J Legg, managing director, Hitachi Seiki (UK); Mr M Taylor, managing director, Bridgeport Machines

Horton had no knowledge for 'right answer'

From Mr Charles McDowall.

Sir, I believe Christopher Lorenz misses a point over the cultural changes and Robert Horton's departure from BP ("Oil and troubled waters", July 29).

The comment of Horton's in Forbes magazine should not have been treated with dismay because of the arrogance it displayed but because of the simple fact that it was patently untrue within the context of the new BP culture.

Horton no more knew what was going on at the coal face than any other director, so he could not get to the "right answer" because he was not endowed with the appropriate knowledge.

Within BP it is well understood among the converted that the new culture requires wholehearted support for it to take root. Many very effective managers with Horton's capacity and drive can be seen to bite their tongues rather than disrupt the obvious benefits that the cultural changes are bringing to the group.

Some of them are completely aware that their natural style does have the power to bring the cultural changes to a grinding halt, or even catastrophically to reverse them.

As the article said, it needed the mentality and drive of someone like Horton to move the BP group to the much needed cultural changes (these had in fact already been successfully started by the exploration business under the leadership of John Browne). But the very autocratic drive that got BP moving is also what the culture change had to eliminate. Drive is fine but autocratic drive is not.

The new culture of empowerment says that executive management has the tools to set corporate direction but the workers at the coal face know all the problems and opportunities down there, so empower them to get on and exploit them.

For many of us it is sad that we had to wait for so many years to see the uncompromising leadership necessary to move BP in the way that Horton and his colleagues have done. It is only a regret that the figurehead for the group's cultural change could not achieve it for himself.

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Macedonia by another name a step to avoiding bloodshed

From Mr Spiros V Branis.

Sir, Edward Mortimer ("A Greek tragi-comedy", July 1) is badly frustrated by the EC decision to recognise the Republic of Skopje provided it chooses a name which does not include the term Macedonia. Mr Mortimer claims the recycled communists who govern Skopje have given assurances for not promoting irredentist claims and have even written them into the constitution.

A careful look into its constitution proves the opposite:

● Article 3: "The territory of the R of M is indivisible and unaltered. The existing borders of the R of M are inviolable. The borders of the R of M can change only according to the constitution."

● Article 74: "The Assembly decides for the change of the borders of the R of M with a two-thirds majority of the total number of representatives. The decision to change the borders of the R of M is adopted with a referendum if it is voted for by the majority of the voters."

These two articles together prove the expansionist nature of the Skopje leaders. If current borders are inviolable and yet they can change, then they could only be expanded. Could you imagine people voting to shrink their country?

● Article 49: "The R of M cares for the status and rights of Macedonian people in neighbouring countries as well as immigrants from the R of M; helps their cultural progress and [develops] ties with them. The R of M cares for the cultural and economic rights of its citizens abroad."

This article sets the groundwork for the expansionism of articles 3 and 74. Mr Mortimer should know that the neighbouring countries of Greece and Bulgaria do not recognise the existence of so-called "Macedonian" minority on their land. Mr Mortimer should study more thoroughly the ethnic salad of the Republic of Skopje. The name Macedonia cannot unify all the mutually hostile groups, but represents an attempt of a small ex-communist nomenclature to survive after the cold war with the facet of an irredentist "Macedonian nationalism".

Acceptance of ethnic reality in Skopje by creating separated ethnic cantons, united by a name excluding the term Macedonia, would be the only solution to avoid bloodshed as in Bosnia-Hercegovina.

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Decatur, GA 30033 US

OBSERVER

Gloss on the presidency

■ Whatever next? Not only has the normally staid Royal Institute of International Affairs burst into glossy colour with its pamphlet to mark Britain's EC presidency, but there's a cartoon on the very front page.

Captioned "Multi-Speed Europe? The Community Beyond Maastricht", it shows European leaders roaring down the road away from the once little-known Dutch town.

Helmut Kohl's Mercedes hogs pole position hotly pursued by François Mitterrand, whose Citroën is slipstreamed by John Major's Rolls. Other member-states follow in a huddle, except Denmark which has slewed off the road in a cloud of steam. Way back, still approaching Maastricht, is a minibus marked Efta, while far in the rear rumbles eastern Europe, an ancient lorry belching noxious fumes.

The glitzy brochure comes courtesy of RTZ, neighbour of the institute (familiarly known as Chatham House) in St James's Square.

At a meeting there to mark the presidency, Chatham House members were warned by Niels Ersboll, secretary general of the EC Council of Ministers, that the Danish No-vote was a problem that "can only be solved by Danes", who, he said, "must reflect on what it could mean, and come forward with proposals".

Since Ersboll is himself Danish, his job could well depend on the outcome.

Perotver-taken

■ Rumours that advertising agency Saatchi & Saatchi was about to be signed up to organise the US presidential campaign of Ross Perot – who seems unable to make up his mind whether or not to run – have been dashed.

Saatchi's US media-buying arm has just clinched a deal with the Bush-Quayle camp to do all its media buying. The appointment came after the Republican party sent observers to the UK's recent general election, where Saatchi worked for the Tory winners.

The big question, of course, is not how many millions of dollars Bush will be paying. It's that, given Saatchi's record, will Perot now throw in the towel without even trying?

0 out of 10

■ Not everyone seems to be sharing the prime minister's enthusiasm for his citizen's charter. The government has only received 296 applications for its 50 annual chartermark awards – the badge of honour for the best provider of user-friendly service.

Given that there are 25,000 schools alone which might have entered, not to mention the hundreds of local and central government bodies, it is not a very high strike rate.

Must try harder, Waldegrave.

Panic move

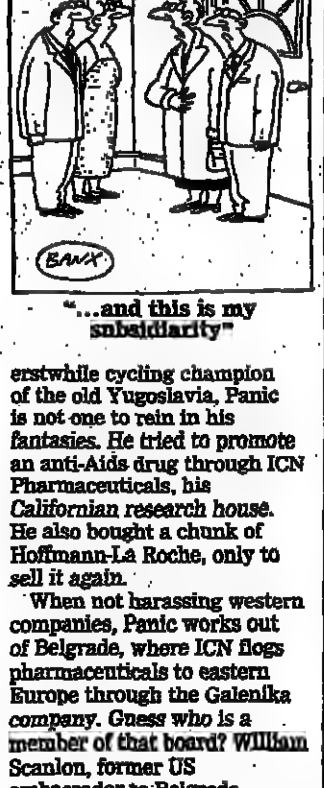
■ The rump, unrecognised new Yugoslavia of Serbia and Montenegro is much smaller than the old Yugoslavia. But its new leaders still think big.

First there is Serbian president Slobodan Milosevic's vision of a Greater Serbia. Next is Dobrica Cosic, "elected" president of the new Yugoslavia last month. He drew the blueprint for a greater Serbia in the 1980s when Milosevic was rising to power. Now there is Milan Panic, 62, just chosen as the first prime minister.

A US citizen as well as erstwhile cycling champion of the old Yugoslavia, Panic is not one to rein in his fantasies. He tried to promote an anti-Aids drug through ICN Pharmaceuticals, his Californian research house. He also bought a chunk of Hoffmann-La Roche, only to sell it again.

When not harassing western companies, Panic works out of Belgrade, where ICN flogs pharmaceuticals to eastern Europe through the Galenika company. Guess who is a member of that board? William Scanlon, former US ambassador to Belgrade.

That may seem a somewhat uncomfortable position, given America's recent switch of policy towards the area.



"...and this is my subsidiarity"

Memory lane

■ The last time that the US discount rate was this low, Chuck McKinley had just beaten Fred Stolle at Wimbledon, the Profumo affair was in full swing and Viscount Stansgate became the first peer to renounce his title. In business, the British Aircraft Corporation had broken into the US market by selling 15 jets to American Airlines for £14m, and Don Ryder had just been appointed managing director of Albert E Reed and Co. British inflation was at 0.8 per cent.

Gnomes' homes

■ The Insider pub just off Zurich's Paradeplatz is about to see its last gathering of gnomes. This weekend the city's Bourse, Switzerland's pre-eminent stock exchange, is moving to new premises a few hundred yards away from the building it has occupied since 1930, which has the pub on its ground floor.

But the gnomes' joy at escaping their cramped old quarters will be mixed with bitterness about the long battle it has taken them to achieve the move. The exchange's first application for a new-building permit was sent to the city authority 14 years ago.

What's worse, since the exchange plans to convert to electronic trading within a year or two, the spacious new trading floor will be redundant soon.

Moreover, just to top things off, the cantonal government which owns the building tenants to install air-conditioning in their offices. So the gnomes are in for a hot summer.

Courting

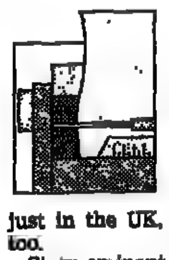
■ Guess who British Aerospace has invited to Wimbledon this weekend? None other German defence minister Volker Rühe who pulled the plug on his country's involvement in the Eurofighter project.

Is BAe throwing good money after bad? Or is this a last-ditch attempt to salvage its most important military contract? BAe's increasingly poor shareholders deserve to be told.

PERSONAL VIEW

Why Emu's critics are wrong

By Charles Bean



The rejection of the Maastricht treaty by the Danes has reopened the debate on European Monetary Union, not just in the UK, but elsewhere too.

Sixty eminent German economists recently claimed that a hasty move to monetary union "will create strong economic tensions within Europe and threaten to lead to political disruption, consequently threatening the ultimate aim of a successful integration".

The sceptics claim that the locking of exchange rates and the eventual introduction of a common currency will condemn some regions of the European Community to slow growth and high unemployment for the foreseeable future. The only way to contain the resulting pressures, they argue, will then be through the formation of a strong federalist political union for which Europe is not yet ready.

Critics of monetary union point to the post-unification German experience as a graphic illustration of the dangers. Locking the Ostmark to the D-Mark at an unrealistically high rate has, they claim, simply priced great swathes of east German industry out of business. But would things have been very different if a rate of, say, 10 Ostmarks to the D-Mark had been chosen? East German industry might have been viable, but only at the unsustainable low real wages that exchange rate implies. The consequence would have been unrest in the east and massive pressure for wage increases.

Germany's problem is that east German workers want the same real living standards as their Western counterparts, but east German industry is presently incapable of sustaining such levels. This fundamental difficulty would ultimately have emerged at whatever exchange rate currencies were locked. The key point is that while the exchange rate may in some circumstances be *useful* as a weapon of short-run economic adjustment, it is not *essential* because companies and wage-setters ultimately respond by changing prices and wages to reflect the new economic conditions.

Of course, giving up domestic monetary policy as a weapon of macroeconomic adjustment means that a greater burden will be placed on fiscal policy, but this seems to be all to the good. Monetary union would thus force governments to make explicit the choice about who should bear the burden of adjustment and would also prevent the attempted correction by monetary means of flawed fiscal policies. This is something which should add rather than detract from the democratic process.

But if more active fiscal policy will be necessary under a monetary union, will it be feasible so long as there is no political union? The obvious comparison would seem to be with the US. Could one really envisage keeping the dollar, but having all decisions on taxes and government spending devolved back to the individual states?

The federal tax and social security scheme provides an automatic mechanism that redistributes resources from richer states to poorer ones. If this did not exist, a state in decline would be faced with the prospect of either cutting spending or raising taxes, either of which would encourage people to migrate to other states with a less harsh fiscal climate. This in turn would further accelerate the decline.

Aside from the fact that these arguments about fiscal policy have nothing to do with monetary union *per se* – the same tensions due to divergent economic performance would still eventually arise even if the individual states had their own currencies whose parity they could change – the parallel with post-1992 Europe is misplaced. Despite efforts to remove barriers to migration of labour within the Community, linguistic and cultural differences mean that labour mobility between nations will still be much lower than in the US. Consequently, there will still be room for the European nations to pursue their own fiscal policies.

Of course, this may change in time as workers become increasingly willing to move throughout the Community. However, in that case, the *politics* as well as the economics of Europe would have altered fundamentally, because once cultural and linguistic barriers have been eroded to such an extent that people feel happy living anywhere in the Community, the idea of a European "nation" would make much more sense than it does today.

Monetary union could nevertheless turn out to be a mistake if the new European Central Bank (ECB) conducts monetary policy badly. German critics are worried that it will be pressurised by European governments into being soft on inflation. Yet the statutes of the new institutions safeguard their independence from political influence as zealously as the current statutes of the Bundesbank. Indeed, the hand of the ECB will be, if anything, stronger since it will be faced with 12 different national governments whose interests will rarely coincide.

Finally, it is important to bear in mind the alternatives. Now that most controls on the movement of capital within the Community have been removed, it is highly questionable whether the current exchange rate mechanism could be sustained indefinitely, because currencies will now be much more open to speculative attacks. Thus, the only long-term alternative is likely to be a more flexible regime of (possibly managed) floating.

Such a regime might work perfectly well, but only if the temptation for individual countries to try to make beggar-my-neighbour devaluations or revaluations could be held in check. If this did not happen the afflicted countries would be tempted to respond by seeking ways to protect their domestic economic interests, with all that this implies for intra-Community trade and mobility. The lessons of the 1920s and 1930s in this regard should not be forgotten.

The author is professor of economics at the London School of Economics. The following economics professors also contributed: Daniel Cohen, Francesco Giavazzi, Alberto Giovannini, Jurgen von Hagen, Damien Neven, Xavier Vives and Charles Wyplosz.

FINANCIAL TIMES
Friday July 3 1992

Spain says European fighter is too costly

By Peter Bruce in Madrid

THE European Fighter Aircraft project suffered its second setback in as many days yesterday when the Spanish government suggested it had serious doubts about the costs of producing the aircraft.

Madrid's doubts could undermine Britain's efforts to salvage the £20bn ($37bn) project, the future of which was put in doubt on Tuesday when Germany decided not to go ahead with production preparations next year.

Mr Felipe Gonzalez, the prime minister, is said to have expressed his government's "understanding" of Germany's decision when he met Chancellor Helmut Kohl privately at the EC summit in Lisbon last month.

Mr Gonzalez even raised the possibility of French participation in a modified EFA project after meeting Mr Pierre Bérégovoy, the French prime minister, in Madrid. "The project has changed since it was begun," Mr Gonzalez said, "and it would be advisable to adapt it to the new [world political] situation in order to reduce costs."

Further evidence of Madrid's concern about the EFA came yesterday in a statement from the defence ministry, which said that while Spain was contractually obliged to complete the development stage of the aircraft, "it supports a reduction in the costs of each aircraft by way of cutting technical specifications and the total cost of the project."

The government would need a great deal of persuading to proceed with Italy and Britain on producing the original aircraft without Germany, officials suggest.

Spain may try to mediate between the remaining partners and Germany to try to find a compromise that does not involve scrapping the EFA completely but which leads to significant cost reductions. Mr Volker Rühe, the German defence minister, has suggested building a lighter and simpler version of the aircraft.

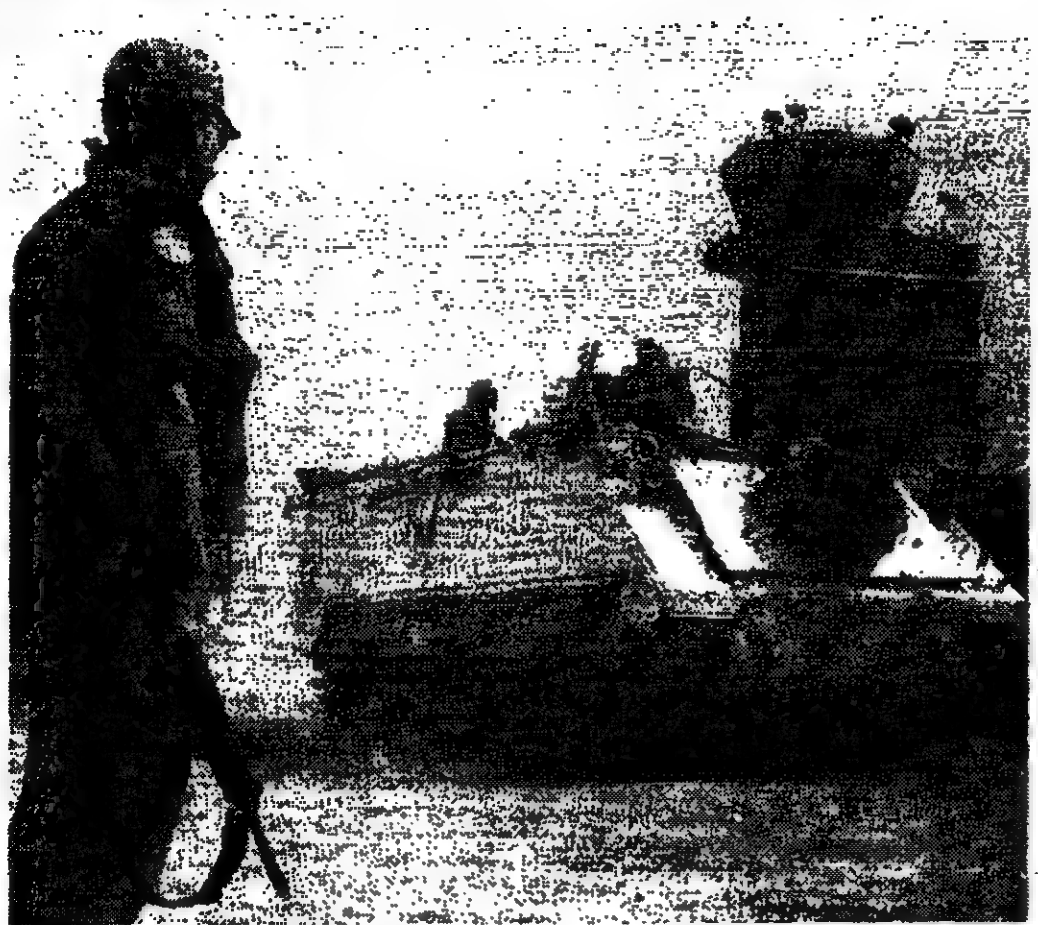
The Spanish defence ministry statement said that while it sympathised with industry's interest in the project, budgetary considerations were paramount.

Any deviation from the original programme is sure to result in a sharp clash with Casa, the state-owned aerospace company, which has vowed to build EFA with its two remaining partners, Britain and Italy, even if this increases Spain's 13 per cent share of the project.

But Madrid, which is facing a dramatic economic slowdown, a 55 per cent increase in its budget deficit for the first five months of 1992 and a 60 per cent increase in its current account deficit, is urgently reviewing spending plans. Mr Gonzalez said yesterday that the 1993 budget would be "very tight".

No formal talks have taken place between the government and Casa, but the prime minister believes that Spain has not been involved in the most sophisticated parts of the EFA, and that participation in a cheaper aircraft would not greatly undermine Spanish companies involved in the project. "Anything that saves us some money would be very welcome," one official said.

But the job losses involved – particularly in the politically sensitive Basque country – in pulling out of the production phase of some kind of aircraft would be very damaging.



A Canadian UN soldier watches as part of a convoy of Canadian troops arrives at Sarajevo airport to secure the airfield for relief supplies. Permanent force urged by UN chief, Page 6

Lloyd's pledges reforms in wake of critical reports

By Richard Lapper in London

LLOYD'S of London yesterday pledged to introduce a number of reforms in the wake of the publication yesterday of two critical reports on its regulation and management.

In his report, Sir David Walker, chairman of the Securities and Investment Board, the UK investment watchdog, was fiercely critical of the professionalism and competence of many of the insurance market's agencies.

Sir Jeremy Morse, chairman of Lloyds Bank, meanwhile, proposed a new framework to manage and regulate the troubled market, entailing the separation of the market's regulation from administration and day-to-day business planning.

The reports were commissioned by Lloyd's earlier this year as part of efforts to restore confidence in the market, which has been hit by heavy losses and mounting criticism over its operations.

The Walker report focuses on the controversial spiral reinsurance market – in which syndicates and companies trading in London reinsure each other's exposures to catastrophe risks – and the way in which market insiders have avoided some of the worst losses.

A number of spiral syndicates have run up heavy losses, accounting for nearly half the £2.06bn ($3.9bn) deficit recorded by Lloyd's in 1989, a result which was announced last week.

Lloyd's professionals welcome report ....Page 7
Editorial comment ....Page 14

Although his report cleared Lloyd's of fraud or conspiracy to disadvantage particular groups of Names, Sir David said his criticisms of professionalism and competence at the market were intended to be "very serious".

It said standards of professionalism, care and diligence of some agents had fallen below best practice. Several members' agents had taken a lax approach to their fiduciary responsibilities. Lloyd's own regulatory policies had also been insufficient to identify shortcomings in the market.

Sir David suggested that the new regulatory board, which Lloyd's is pledged to create, must set tougher standards and monitor compliance more vigorously. He also said standards of disclosure to Names – the individuals whose assets provide the market's capital base – must be improved.

Separately yesterday, Lloyd's won a landmark decision in the High Court in the long-running Oakeley Vaughan case.

Mr Justice Gatehouse ruled that Lloyd's had no "duty of care" in the case brought by 33 plaintiffs who face losses as a result of their membership of syndicates formerly managed by the Oakeley Vaughan agency. The Names allege that a failure of regulation by Lloyd's was responsible.

Meanwhile Mr David Coleridge, the market's chairman, ran into a barrage of criticism at the annual meeting of the Association of Lloyd's Members, the organisation which represents over 9,000 Names, for suggesting that people unable to to attend the market's extraordinary general meeting on July 27 were unlikely to be able to vote by postal ballot.

Dissident Names have introduced a vote of no confidence in the market's council.

Delors says he is scapegoat

Continued from Page 1

December agreeing a deal along these lines. "I don't see how it [a deal] can be done otherwise".

In a move likely to discomfit Britain, Mr Delors said the Commission would publish proposals this month on revising the UK budget rebate, which London has clung to ever since it was agreed in 1984. He said the German government, under its own budgetary pressures, insisted that he should no longer delay plans to revise the scheme by which Britain gets £2bn ($3.8bn) a year back on its EC contribution.

He said the Community needed the resources to match its ambitions, including the desire for a more active external policy. "If one accepts our proposals, the EC budget would represent in 1997-99 a maximum of 3 per cent of all public spending in the Community. Is this unreasonable, in a Community which will then have a single currency, macro-economic co-ordination, and a common foreign and security policy, even if that progresses slowly?".

He suggested that Britain was unlikely to succeed in its efforts to bring the planned European central bank to London. In Lisbon, he said the Community had lost "a good moment" to decide the sites of its institutions, when Britain prevented agreement on the central bank going to Bonn. In the overall understanding on monetary union, there was "a balance" between the Germans accepting a date for the start of Emu and their need for "assurance" on the central bank site.

He voiced his basic confidence that a single currency would come into being by 1999. But he warned that slow growth across the Community was, by depressing budget revenue, jeopardising countries' chances of reaching the Emu criteria for fiscal deficits. Growth of more than 2 per cent was necessary, he said.

Mr Delors made clear the overriding importance he gave to subsidiarity. "In abolishing the barriers to the single EC market, we have sometimes had to legislate in the smallest detail. In doing this, however, you trample on principles which are superior, such as the respect for Europe's diversity".

The Community has already passed most of its single market directives, and Mr Delors said: "I prefer a single market 90 per cent complete to one working at 110 per cent, which is rejected by the people".

Discount rate cut after sharp rise in jobless

Continued from Page 1

The Fed move followed intense lobbying by the White House with both Mr Bush and Mr Nicholas Brady, the treasury secretary, making public calls for lower interest rates.

The timing of the rate cut – just ahead of next week's Group of Seven economic summit in Munich – was particularly convenient for the Bush administration, which intends to stress the importance of co-ordinated measures to stimulate global growth.

The three biggest G7 nations have now signalled steps which they believe will promote non-inflationary growth in the world economy in the medium term. On Wednesday, the Bonn government announced a tough 1993 budget and four-year savings plan that is supposed to pave the way for lower German interest rates.

In Japan, the ruling Liberal Democrat party has proposed a wide range of pump-priming measures including a large-scale supplementary budget that would probably be introduced in September.

Taken together, these moves represented a "very substantial change" in the policymaking climate, the US Treasury said.

The Fed, however, justified the discount rate cut in purely domestic terms. It followed "sustained weakness in credit and money growth, continued movement toward price stability and the uneven progress of the economic recovery."

US Financial markets had expected no change in the unemployment rate and a rise in non-farm employment of about 80,000.

But after several months of gradual improvement, employment fell by 117,000. The unemployment rate – politically the most sensitive number – jumped sharply to 7.8 per cent.

World Weather

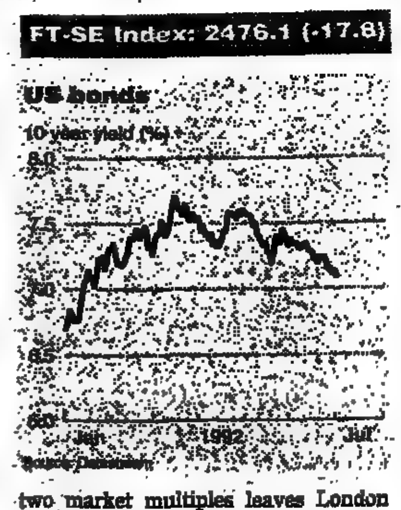
		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	T	25	77	Boulogne	C	16	61	Frankfurt	F	25	77	Majorca	C	25	77	Oporto	S	21	70	Tenerife	Dr	22	72
Algiers	F	27	81	Brussels	F	23	73	Geneva	S	22	72	Malaga	S	24	75	Oslo	F	18	64	Tokyo	C	25	77
Amsterdam	C	17	63	Budapest	F	28	82	Gibraltar	S	22	72	Malta	S	26	79	Paris	C	30	86	Toronto †	F	16	61
Athens	S	26	79	Buenos Aires	F	14	57	Glasgow	C	14	57	Manila	R	31	88	Prague	F	23	73	Tunis	R	19	66
Bahrain	S	33	91	Cairo	S	31	88	Helsinki	C	13	55	Melbourne		–	–	Reykjavik	F	11	52	Valencia	S	26	79
Bangkok	F	35	95	Cape Town	S	18	64	Hong Kong	S	31	88	Mexico City	C	26	[illegible]	Rhodes	S	25	77	Venice	F	23	73
Barcelona	S	22	72	Caracas	R	30	86	Innsbruck	S	25	77	Miami †	S	28	82	Rio de Janeiro	C	31	88	Vienna	F	25	77
Beijing	S	32	90	Casablanca †	S	23	73	Inverness	C	12	54	Milan	S	24	75	Rome	C	21	70	Warsaw	F	31	88
Beirut	F	25	77	Chicago †	R	29	84	Islamabad	F	31	88	Montreal †	S	14	57	Salzburg	S	22	72	Washington †	S	22	72
Belfast	F	13	55	Cologne	F	23	73	Istanbul	F	22	72	Moscow	S	27	81	S Francisco †	C	16	60	Zurich	C	18	64
Belgrade	F	30	86	Copenhagen	S	21	70	Jakarta	C	33	91	Munich	F	22	72	Seoul	F	25	77				
Berlin	C	25	77	Corfu	F	25	77	Johannesburg	S	16	61	Nairobi	C	20	68	Singapore	F	30	86				
Biarritz	S	21	70	Dallas		–	–	Lisbon	S	26	79	Naples	R	20	68	Stockholm	R	13	55				
Bombay	F	31	88	Dublin	C	13	55	London	C	15	59	Nassau	F	33	91	Strasbourg	S	24	75				
Bordeaux	C	23	73	Dubrovnik		–	–	Los Angeles †	S	16	61	New Delhi	F	33	91	Sydney	F	20	68				
				Edinburgh	C	13	55	Luxembourg	R	18	64	New York †	S	19	66	Taipei	C	34	93				
				Faro	S	26	79	Madeira	S	23	73	Nice	S	22	72	Tangier	S	25	77				
				Florence	C	23	73	Madrid	S	26	79	Nicosia	S	24	75	Tel Aviv	S	28	82				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

THE LEX COLUMN

The Fed cuts it fine

FT-SE Index: 2476.1 (-17.8)



The last US discount rate cut in December sparked off heavy buying of US equities on the basis that rates were so low as to make vigorous recovery a dead certainty. After that proved an illusion, it is tempting to shrug off yesterday's further half point cut as likely to lead to further disappointment. At some stage, however, the medicine will work. The problem is that even the best of forecasters can only guess when.

Admittedly, one can exaggerate the degree to which the recovery has spluttered to a halt. The Fed's move probably had some political content. It equips the US to demand similar action from its G7 partners at next week's Munich summit. June's unexpectedly large fall in non-farm payrolls may also have been an aberration. But even if the Fed's response owes as much to the approach of the election as to economic necessity, it could never have contemplated acting so decisively had credit demand been stronger and money supply growth on target. The fall in bond yields over the past couple of months and their continued decline after yesterday's announcement indicates a remarkable absence of inflationary pressure.

With a bit of luck, individuals and corporations may now resume debt refinancing at lower rates. Their greater sense of well-being could generate the confidence needed to boost the economy. An early sign of whether this is happening will come from the figures for new car sales in July.

The currency markets seem prepared to give the Fed the benefit of the doubt. After an initial sell-off, the dollar reacted to the cut with singular calm. If US rates really have reached their low point, exchange dealers may soon start discounting an eventual narrowing of the interest differential with Germany and the dollar will recover. But that is still a big if. Meanwhile, Wall Street risks losing both ways. The flow of retail cash from the money markets could dry up while the recovery remains far from robust enough to justify present equity prices.

UK market

The UK equity market's response to Wall Street these days seems to be a kind of reverse ratchet effect, whereby it falls along with Wall Street and does nothing when it rises. The differential between the two markets is somewhat stretched as a result. In particular, as Warburg points out, comparison of the two market multiples leaves London looking more depressed than at any time since the dark days of the mid-1970s. There are obvious distortions, such as the fact that most UK companies do not yet charge closure and rationalisation costs against earnings. If only for that reason, UK companies do not have the same scope for a rebound in stated earnings in the event of economic recovery.

But there is more to it than accounting conventions. On the one hand, Wall Street's continued strength takes a lot of justifying. On the other, the weakness of the dollar is unsettling. This may be irrational: the US currency may recover, while some UK companies with dollar earnings have better cash cover on their dividends than others which depend solely on the UK economy. But the memory of what a $2.40 pound did to manufacturers in the last recession is not calculated to steady nerves.

Lloyd's

Doubtless aggrieved Names at Lloyd's will continue to insist that the well publicised problems of the LMX spiral went beyond simple incompetence and that the structure of governance is not the most fundamental issue. But coming on top of Mr Coleridge's contrite performance at last month's AGM – an occasion when the middle classes signally failed to riot – yesterday's reports from committees chaired by Sir David Walker and Sir Jeremy Morse add to an impression of Lloyd's gradually getting its house into order.

This must be healthy for an institution which relies on a reputation for straight dealing. As a result, the meltdown theory is starting to look a good deal less plausible, although backwoodsmen who believe that everything will be righted with the turn in the cycle are equally guilty of wishful thinking. Lloyd's should survive all right, but in a different form. In the short term at any rate, it also seems destined to shrink. While forecasts of a 20 to 30 per cent fall in capacity next year may be on the gloomy side, 1990 losses when they are announced in 12 months' time will inevitably shake out more Names. There is strong evidence of improving rates, to be sure, particularly in marine and aviation. But given the awful press of recent months and the disappearance of major tax breaks neither new individuals nor corporate members are likely to show up until clear proof can be shown of renewed profitability.

Fears that Lloyd's may now lose control of some business sectors may be overdone; much of the problem, after all, was irresponsible competition within Lloyd's itself. That said, Lloyd's will have to concentrate its expertise even more on complex risks and share its bigger deals with the composites. A fully integrated London market – and a more Europeanised one – looks inevitable in the long run.

MFI

The outcome of the MFI flotation is going to be an interesting test of investor psychology. On the one hand, the price has been slashed to the point where it starts to look attractive on fundamental grounds. On the other, the essence of a successful stagging operation is that shares should be intercepted by retail investors on their way to the institutions. In MFI's case, the almost total lack of demand from financial intermediaries suggests little interest among wealthier private investors. Taken along with the stunning lack of popular response to the Telegraph flotation, this argues that whatever the British public is saving up for these days, it is not equity issues.

It may therefore be a close-run thing whether MFI opens to a worthwhile premium in a fortnight's time. That in turn could do much to determine sentiment towards other new issues, since MFI is seen as one of the most intrinsically attractive companies coming to the market. For the long-term investor in MFI the simple approach is to take up the offer and let the after-market take care of itself.

FINANCIAL TIMES COMPANIES & MARKETS

 Friday July 3 1992

INSIDE

Conti tries to put brakes on Pirelli

Continental, the German tyre company, yesterday launched a new legal initiative to prevent Pirelli exercising its votes on more than the 5 per cent stake which it holds in Conti. The appeal marks a further deterioration in relations between the two companies before Conti's annual meeting today at which Pirelli will seek to extend its voting rights. Page 13

Kazakhstan attracts the west

With rich reserves of oil and gas, as well as gold, copper and chromium, some suggest that Kazakhstan, the former Soviet republic, could be the Saudi Arabia of central Asia. The republic has been successful in attracting western investment. Page 32

Limitless futures

The US managed futures industry is winning ground in its battle to persuade the Commodity Futures Trading Commission, the industry watchdog, to raise or eliminate speculative position limits. The CFTC has given permission for the Chicago Board of Trade to remove position limits on 30-year Treasury bonds and five and 10-year Treasury notes, three of its most heavily traded financial contracts. Page 20

Doubts hangs over Aegis

Doubt hangs over the short-term future of Aegis, the holding company of Carat, the largest pan-European media-buying and planning group, following the sudden resignation last Friday of Mr Peter Scott (left), chairman. In the face of weak advertising volumes, the group must cut costs, learn how to grow organically rather than by acquisition, and tackle in its main market, France, a government inquiry into media buying practices. Page 25

Watchdog may get tough

Offer, the UK electricity industry watchdog, is likely to force the National Grid Company to cut its charges to electricity consumers. Meanwhile, Northern Electric, the Newcastle-based regional electricity company, announced a pre-tax profit of £98.2m for the year to March 1992, up 42 per cent against pro forma profit for the previous year. Page 22

Thais try afternoon trading

The new afternoon trading session at the Stock Exchange of Thailand (SET) received a lacklustre welcome from investors, with turnover reaching only Bt4.43bn ($176.8m) and the SET index closing 4.51 lower at 746.94. Back Page

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Dr Pepper	17	Pirelli	13
Eastern Electricity	33	PowerGen	33
Farepak	24	Saatchi & Saatchi	12
Ferranti	24	Siemens	18
Fleming (Robert)	24	Sims Food	24
Foster's	20	Sperati (CA)	25
GPA Group	17	Sun Hung Kai	20
Glaxo	33	T&N	22
Gold Greenlees Trott	22	Tams (John)	25
Greene King	25	Thames Water	24
Hafnia	18	Thomson CSF	18
Hi-Tec Sports	24	Time Products	12
IBM	19	Toshiba	19
ICI	33	Uni Storebrand	18
Iberia	19	Unilever	25
KHD	18	Upjohn	18
Kunick	24	Volkswagen	18, 17
LTV	19	Wellcome	17
MFI	17	Wiggins	22

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Rises			
Audi	888	+	17	BIC	813	+	18
Colonia Konz.	865	+	40	Sanofi	1080	+	36
Holzmann	1150	+	24	Falls			
Linotype	424	+	13	Aussedat Rey	620	−	32
Volkswagen	383.5	+	10.3	Coflexip	282	−	18.2
Falls				Elf-Aquit	351.6	−	21.6
Philipp Holz	615	−	15	Radiotech	541	−	19
NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
BankAmerica	45⅞	+	1⅛	Chiyoda	2640	+	430
Federal Nat	64	+	1⅝	Hoko Fishing	439	+	58
JP Morgan	58½	+	1⅝	Hokushu El	541	+	80
Salomon	35⅞	+	1⅛	Nippon Formula	772	+	100
Falls				Prima Meat	590	+	80
Adv Micro	8	−	2	Taiyo Fishery	461	+	80
Minnesota Min	95¼	−	2⅛				

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Euro Disney	1073	−	22
BM	110	+	25	Excalibur	19	−	4
Dowty	186	+	6	Greycoat	34	−	4
Nest	89½	+	3½	Hi-Tec Sports	105	−	59
Sth Staffs Wtr	1225	+	75	Meyrebo	110	−	18
T & N	142	+	4	Owners Abroad	69	−	5
Falls				Reckitt&Colman	591	−	14
Actmak Lais	43½	−	3½	Sims Food	250	−	25
Amstrad	27	−	17	Smiths (Wm)	108	−	10
Brown Inds	34½	−	6½	Utd News	402	−	15
Delephik Foods	313	−	15	Whitney M-L	23	−	3
Bic Regulars	3235	−	145				

New issues flop on both sides of the Atlantic as investors lose their enthusiasm

Flotations sail into choppy waters

By Maggie Urry in London

ONCE may be chance, twice coincidence, but three times must be enemy action. Merchant bankers, their clients and the underwriters must be distinctly worried after two recent flotations have failed, and might be forgiven for wondering whether there is a concerted buyers' strike against new equity.

Last month GPA Group, the aircraft leasing company, pulled its flotation because of a lack of investor interest. This week, The Telegraph's flotation flopped with retail investors.

The two might be coincidental. But a third failure would suggest that the new issue market, which sprang to life after last month's UK general election, has died.

The pricing of MFI Furniture Group's flotation yesterday at 115p – well below earlier hopes and at a significant p/e discount to the stores sector – showed the company's determination to ensure that the issue succeeded. But in these uncertain markets, eight days between the issue of the prospectus and the close of applications is a long time.

The situation is even worse for companies contemplating a rights issue, where the gap between pricing and closing is typically three weeks. Yesterday Marshalls, the UK building materials group, announced that only 27.8 per cent of its £20m ($39m) rights issue had been taken up by shareholders. When that issue was priced on June 9 at 75p, the existing shares stood at 97p. The company must have felt the discount was wide enough to be safe.

The MFI issue aims to raise £629m, making it a demanding test for the market. But even that is dwarfed by the sale of shares in Wellcome, the drugs group, due to be completed by the end of this month. That is still expected to raise around £2.8bn for the Wellcome Trust, which is reducing its stake in the company.

Wellcome's shares have fallen from 1126p just before the Trust announced early in March that it would sell a large part of its shareholding, to 856p at yesterday's close, up 3p on the day.

The Trust appears committed to see the sale through. With three weeks to go, and the formal tendering process not yet under way, it would seem premature to pull the issue when so much work has already gone into it. The size and price of the issue can be adapted to suit demand and the Trust is, in any case, planning to reinvest the proceeds in a market which is getting lower by the day.

The fall in the London stock market has been sharp, with the FT-SE 100 index losing more than 200 points, or more than 8 per cent, since the beginning of June.

Fund managers note that bad news drives the market down, but good news fails to pick the market up. Even so, they feel that the right company could find buyers at the right price.

Whether the price that investors regard as right is acceptable to the company is another matter. But any company contemplating raising equity will think hard before going ahead.

Falling market forces MFI to trim offer price

By Maggie Urry in London

THE RECENT falls in share prices on the London stock market have forced MFI Furniture Group, the UK retailer of kitchen and bedroom furniture, to set a 115p price for its flotation, much lower than it had hoped.

There will also be fewer shares on sale than had been intended.

The price puts a market value of £669m ($1.3bn) on the company, while earlier estimates had suggested £750m or perhaps as much as £800m.

The market value compares with the £718m price when the company carried out a management buy-out in 1987.

Mr Derek Hunt, chairman of MFI, said yesterday: "We gave ground on the price for obvious reasons. It was underwritten and that is what matters."

But he and fellow directors decided against selling any of their own shares.

"I am not selling at that price," Mr Hunt said. He has 521,000 shares, worth £600,000 at the issue price.

As with the share issue for The Telegraph newspaper group earlier this week, there are initial indications that private investors are showing little enthusiasm for MFI's offer.

Originally, up to 10 per cent of the MFI issue was to have been placed with regional stockbrokers, to sell to their clients. But they found demand for only 1 per cent of the issue.

A quarter of the issue is being sold through a public offer, to meet Stock Exchange requirements governing flotations.

The other 74 per cent of the issue has been placed with institutions.

The price was fixed around 2am yesterday after a meeting lasting several hours at County NatWest, the UK merchant bank which is sponsoring the issue.

People who attended the meeting said that the possibility of cancelling the issue was not seriously considered.

Mr David Barclay of County NatWest said: "Pulling an issue is always an option, but it is a nuclear weapon, not to be used lightly."

The investors who backed the management buy-out are selling fewer shares than planned, only just realising their original investment.

Asda, the supermarket group which had owned MFI until the buy-out, is selling the whole of its 25 per cent stake, realising £78m.

MFI will receive the planned £545m before expenses, enabling it to repay much of its £500m of debt, repay £183m of preference and convertible shares and pay an £11m bonus to management.

The price puts the shares on an historic pro forma price/earnings ratio of 15.3, which compares with a stores sector average of about 18.

The company said it would have paid a 3.75p dividend in its last financial year if it had been a public company, giving a yield of 4.4 per cent at the issue price.

Lex, Page 16

Dr Pepper scraps $600m issue

By Patrick Harverson in New York

DR PEPPER/SEVEN-UP, the third largest soft drink manufacturer in the US, has pulled out of its plan to go public in a $600m stock issue because of unfavourable market conditions.

The company took the decision to pull the issue late on Wednesday when it realised it could not sell the stock at its original target price of between $20 and $23 a share, or even at its revised price of between $17 and $18 a share.

The issue of about 38m Dr Pepper shares was part of a refinancing plan that involved using new low-interest bank borrowings of approximately $714m and $143m of cash in hand to sharply reduce the company's debt load.

That plan has also been shelved, but Dr Pepper said it would try to revive the issue, and with it the refinancing plan, when market conditions improve.

The Dr Pepper flotation is the latest in a line of recently-cancelled US stock issues, all prompted by concern about the outlook for equity prices and realisation that investors are becoming more selective about the prices they pay for new stock and the companies they are willing to invest in.

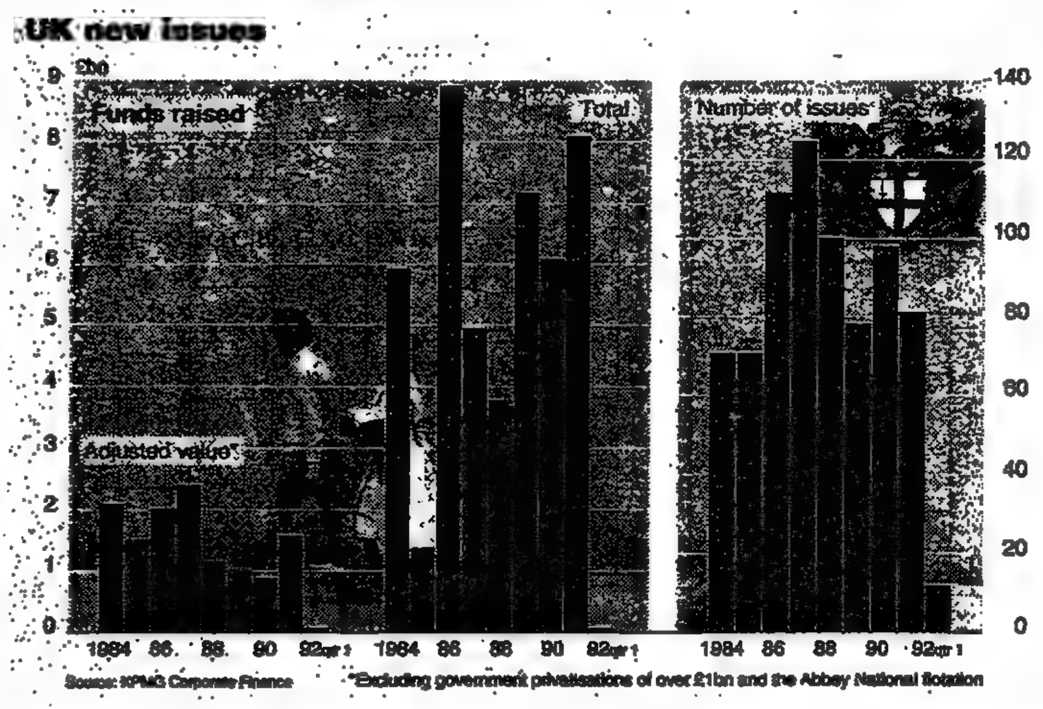
Potential corporate issuers have also been scared by the experience of some companies that have recently floated stock, but seen the value of their shares fall well below the offer price.

Although proceeds from stock issues, both new and secondary, reached a record $41.3bn in the first half of this year, new stock activity slowed appreciably in the second quarter as the pricing environment deteriorated. Of the 140 initial public offerings (IPOs) that came to the market in the second quarter, 60 were offered at a price below the filing range.

One such was LASMO's $495m float of its Ultramar North American operations.

Many stock issues, especially IPOs, have also been withdrawn at the last minute because of the poor state of the market. Of the 250 IPOs filed so far this year, 53 have been postponed or cancelled, including a $404m offering from GPM Gas. The slump in new issues has also hit foreign companies. Last week, Banacci, the Mexican financial group, cancelled its planned $1.4bn stock offering, part of which would have been in the US.

UK new issues



Source: KPMG Corporate Finance *Excluding government privatisations of over £1bn and the Abbey National flotation

GPA drops plans to buy joint ventures

By Roland Rudd in London

THE GPA Group has cancelled plans to buy in its joint venture companies to avoid bringing $1.2bn of extra borrowings on to its balance sheet.

This is the first sign that the aircraft leasing company's plans are being affected by its failure last month to proceed with its planned $800m flotation.

The company has more than $7bn of firm orders to acquire aircraft from manufacturers over the next three years, and some of GPA's investment bankers believe it needs to raise around $500m within six months to avoid cancelling or deferring some of these orders.

According to one of its investment bankers, the company is considering raising funds through the issue of debt securities in the capital markets, the private placement of shares and a convertible preference share issue.

The group would only say that it is reviewing all its options before its board meeting this month.

GPA's UK pathfinder prospectus, issued in May, spelled out why the group wanted to buy the equity interests in its joint ventures.

It said: "The company believes that much of the rationale for maintaining many of the joint venture companies has diminished, particularly having regard to the higher cost and complexity of managing such enterprises."

Last year GPA's share of the profits from all of its joint ventures fell from $83m to $56m.

A spokesman for GPA yesterday said: "It is highly probable that we shall not buy in the joint ventures because we do not want their borrowings on our balance sheet."

In the year to December the joint venture companies reported $1.2bn debt and $1.9bn in assets.

The joint ventures which GPA had hoped to gain control of were GPA Airbus, Irish Aerospace, GPA-ATR and GPA Fokker. As of March 31, GPA had contributed $275m to the joint venture companies in the form of equity and subordinated loans, and had guaranteed $178m of the obligations of the companies and expects to provide more in the future.

GPA has already purchased equity interests in three former joint ventures – GPA Rolls, GPA Aero Citra and Air Maple – for $92m.

VW calls on UK component makers to bid for contracts

By John Griffiths in London

VOLKSWAGEN, Europe's biggest carmaker, has called on UK motor component manufacturers to bid for more business with the rapidly-expanding German group.

The move is another warning to the German components industry that the country's high labour, social and other costs are making it increasingly uncompetitive.

VW is planning investments of DM51bn ($33.7bn) over the next five years to lift total vehicle production from 3.1m to 4.8m units a year. The Wolfsburg-headquartered group includes Audi, Seat of Spain and Skoda of Czechoslovakia.

Mr Werner Svetlik, VW management board director with responsibility for purchasing, told a meeting of some 100 component companies, industry groups and government officials in Birmingham that VW is seeking a "closer partnership" with the UK industry.

He said there was the opportunity for large increases in the volume of components bought by VW in the UK. These purchases totalled £86m last year, up 15 per cent on 1990.

VW, like Opel, BMW and other German carmakers, is under mounting pressures from rivals, particularly Japanese, which are benefiting from lower component and assembly costs through global sourcing policies.

Mr Robert Stempel, chairman of Opel's parent, General Motors, has already warned that GM is to introduce a global sourcing policy which could mean lost business for suppliers in the US or Germany.

Mr Svetlik told the potential UK suppliers that the Birmingham meeting marked the beginning of a "new philosophy" of stronger co-operation, in which suppliers would be closely involved in VW's product development and would be awarded single-source, long-term contracts. "The good reputation of the British component industry is well deserved and I have no doubt that British companies can meet our requirements," he said.

VW has become more attracted to the UK components industry since several hundred UK component makers became involved in supplying parts to Nissan, Toyota and Honda "transplants" in the UK. Meeting the Japanese cost and quality criteria is accepted as having sharply raised the UK industry's competitiveness.

VW forecasts gain, Page 18

Northern Telecom invests in Matra

By Alice Rawsthorn in Paris and Bernard Simon in Toronto

NORTHERN Telecom of Canada is investing FFr1.36bn ($260m) in Matra Communications, the telecommunications division of Matra, the French defence electronics group.

The Canadian group, which will emerge with an initial 20 per cent of Matra Communications, is also negotiating to take a minority stake in the new holding company which will merge Matra with Hachette, the French publishing company, also controlled by the Lagardère family.

Matra Communications, which last year incurred a net loss of FFr17m on sales of FFr5.9bn, has been seeking an international partner since last autumn. The company, which employs 8,000 people, needed to grow to compete in the competitive international telecommunications market.

The Matra purchase is in keeping with Northern's shift of emphasis over recent years from its core North American base to a more geographically diversified business. Dr Paul Stern, chairman, who handled the negotiations, said the alliance would help Northern develop markets in Europe and elsewhere.

Under the terms of the deal, Northern Telecom will pay FFr700m for a 20 per cent stake in Matra Communications and will also provide a FFr660m convertible loan. The two groups are forming a joint venture to combine Matra's radio technology with Northern's switching expertise.

Matra is also offering to buy out the minority shareholders in its communications subsidiary. It has agreed terms to acquire the 18 per cent stake held by Paribas, the French investment bank, for FFr295.70 a share in a FFr612m deal. This is believed to represent a profit of FFr450m for Paribas. The same offer has been extended to other minority shareholders with 12 per cent of Matra Communications.

Meanwhile Northern, which last year staged a US$2.6bn takeover for the UK's STC, plans to take up to 8 per cent of the new Matra/Hachette holding company, which will come into force at the end of this year. The creation of the company has been criticised in France due to the apparent divergence of interests. However, Mr Jean-Luc Lagardère, who chairs both Matra and Hachette, has argued it will yield administrative savings.

VW forecasts first-half gain as sales buck trend

By Leslie Colitt

VOLKSWAGEN, Europe's largest car manufacturer, estimated that first-half group earnings would be "slightly higher" than the DM433m ($274m) earned in the same period of 1991. Mr Carl Hahn, chairman, said 1.8m vehicles were sold in the six months, a rise of 5.4 per cent, based on preliminary figures. Turnover was estimated at DM44bn.

Addressing the annual meeting for the last time before handing over at the end of this year to Mr Ferdinand Piëch, Mr Hahn said VW was on course to sell 3.5m vehicles worldwide this year compared with 3.1m last year.

This was all the more noteworthy as sales in Germany had fallen by 1.3 per cent in the first half because of weaker demand in the east.

Mr Hahn contrasted VW's results with those of most US and Japanese carmakers, calculating that group earnings last year, adjusted for special depreciation, were 3.7 per cent before taxes which were matched by few others.

Sales this year will be boosted by the inclusion for the first time of Skoda, in which VW has a majority stake. Sales of the Czechoslovak car were expected to rise to 190,000 units from a low point of 110,000 last year. Skoda was hit by plummeting domestic demand and a collapse of its east European market but has since found new markets in the west with VW's help.

A Volkswagen spokesman said that with the help of the impending North American Free Trade Agreement (Nafta), VW aimed to boost sales of its cars in the US by an additional 100,000 cars in coming years. This was the rationale behind a planned doubling of the capacity of its Mexican operation to 400,000 units.

Von Pierer named as Siemens' new chief

By Andrew Fisher in Frankfurt

THE APPOINTMENT of Mr Heinrich von Pierer, the former junior tennis champion of Bavaria, as the next chief executive of Siemens was confirmed yesterday by the supervisory board of the German electrical and electronics group.

Mr von Pierer, 51, who has a law and economic education, was named as deputy chief executive a year ago to Mr Karlheinz Kaske, the 64-year-old head of Siemens who steps down from the top job on October 1.

It was understood that Mr von Pierer would become the next chief executive, and the supervisory board decision has made this official.

Since Mr Kaske became chief executive at the start of 1981, the Munich-based group's turnover has risen from DM32bn to DM80bn ($52bn). Under his leadership, Siemens has sought to break out of its bureaucratic mould – it employs 402,000 people – penetrate the US market more effectively, develop its position in telecommunications and computers, invest in east Germany, and move into the developing markets of eastern Europe.

Among its most recent challenges was the acquisition of Nixdorf, the ailing computer company which is causing Siemens more problems than it anticipated. Siemens will give details of its group performance in the first eight months of its end-September financial year in Dresden on Monday. It has already reported an 8 per cent gain in net profits for the first half to DM859m ($521m).

Von Pierer: tennis playing likely to be curtailed

Mr von Pierer's main experience before joining the board of Siemens was as a director and then head of its KWU power station operation. He helped ensure that orders were dominated by conventional rather than nuclear power station business at a time when the latter was becoming increasingly controversial.

He also convinced the Prague government and the management of Skoda Pilsen, the Czech engineering company, that Siemens was the best partner among the several concerns vying for the joint venture in power generation signed last year. This involved frequent trips to Czechoslovakia to cultivate politicians and offset fears that Siemens intended to drop the Skoda name and use Pilsen as a cheap production site.

Associates of Mr von Pierer, who helped finance his studies by working as a local sports reporter near Nuremberg, say he has an open, easy going style and makes his views and criticisms known clearly. He still plays tennis and is senior champion of northern Bavaria, though his time on the court is likely to be curtailed by his new responsibilities.

Israeli weapons group in red

By Hugh Carnegy in Jerusalem

EVIDENCE of the problems besetting much of Israel's big defence industry emerged yesterday when Israel Military Industries (IMI), one of the biggest state-owned weapons producers, announced losses in 1991 of almost US$240m and warned it was likely to incur a further $120m loss this year.

The government also announced the appointment of a special team to assess the viability of converting Rafael, a state-owned developer of weapons systems, into an independently-run commercial company following several years of heavy losses. At present, it is run directly by the Defence Ministry, as was IMI until two years ago.

The defence sector is a stalwart of Israeli exports and its difficulties, due in large measure to a decline in world demand for weaponry, contributed to the country's poor export performance over the past 18 months. The lack of export growth is worrying policy-makers because it is regarded as the key to expanding the economy to accommodate mass immigration from the former Soviet Union.

IMI, best known as the maker of the Uzi sub-machine gun, exports about 70 per cent of its production. Its sales fell in 1991 to $520m from $670m in 1990. At the same time, it incurred huge costs associated with a crash recovery programme, including a $34m write-off of unsaleable stock.

Last year, IMI sales to civilian markets were just $30m.

The company is seeking government aid to help it complete a painful reorganisation in which it plans to cut the workforce from 10,000 two years ago to around 7,500.

Uni to retain stake in Skandia

By Karen Fossli in Oslo

UNI STOREBRAND, Norway's biggest insurance group, has been allowed to retain its 28 per cent stake in Skandia, Sweden's biggest insurer, for a further year.

Uni, which recently acquired its NKr4bn ($673m) Skandia shareholding, was granted the concession by the Finance Ministry so long as Skandia disposed of Vesta, its Norwegian subsidiary.

Skandia has previously refused to sell Vesta. Under the terms of the concession, Uni will be forced to reduce the 28 per cent shareholding to below 10 per cent by the beginning of next July unless Skandia sells Vesta.

On Tuesday, Uni suffered a blow when its share price fell 15 per cent on the Oslo bourse following a domestic media report alleging the company was technically bankrupt.

Uni was forced to issue a clarification of its financial position and denied the report. Yesterday, Uni's A-shares shed another NKr1 to end at NKr30 and Free shares fell NKr1.50 to NKr32.50.

● Gjensidige Skadeforsikring, one of Norway's biggest insurers, has paid NKr365m for a 63.39 per cent stake in the Forenede group, in a preparatory move to a full takeover by next August.

Approval for the deal by the Finance Ministry cleared the way after a long battle with Codan, the Danish subsidiary of Britain's Sun Alliance group, which had also pursued Forenede.

Forenede holds 10 per cent of the domestic insurance market.

The ministry favoured Gjensidige because the company plans to maintain its operations in Trondheim.

Irregularities stall DKr2bn rights issue

By Hilary Barnes in Copenhagen

HAFNIA HOLDING, which controls Denmark's second-largest insurance group, yesterday postponed trading in a new rights issue. The issue was intended to raise DKr2bn ($344m) and is vital to the company's plans to strengthen its financial base.

The postponement follows the revelation on Wednesday that through an options deal, which Hafnia's board claims was unauthorised, the group has been forced to take 73 per cent of the shares in Interbank, a small bank.

The options deal has cost Hafnia DKr288m.

Hafnia yesterday also said that it is looking into other possible irregularities.

The group's board spent yesterday in discussions with the bankers and the institutional investors which have guaranteed the new share issue.

Mr Holger Laveson, the chairman, last night said that the discussions have gone satisfactorily but are not complete. A full statement will be made today.

Meanwhile, Copenhagen brokers Carnegie, which is one of the brokers establishing the options deal, said that in its view the deal was valid and that it expected Hafnia to honour it.

Porz plant gives KHD new lease of life

Andrew Fisher on prospects for the German diesel engine maker

FOR Klöckner-Humboldt-Deutz, the German maker of diesel engines, industrial plant and farm equipment, the late 1980s were a corporate nightmare.

A disastrous move into the US agricultural sector led to heavy losses and the company was forced to slash jobs and capacity. Those grim days are thankfully over. KHD, whose origins go back to the first days of the diesel engine, is now engaged on what Mr Werner Kirchgässer, the chief executive, calls a process of "strengthening from within".

But there is still some way to go. Yesterday, he said at the annual meeting that KHD would again make a loss in the first half of this year, though this was because most business was done in the second half. He expected another profit for the full year. Encouragingly, he said the new order inflow was 7 per cent higher in the first five months at DM1.6bn ($1bn), with a 22 per cent jump in industrial plant business.

Although the "strengthening" process has succeeded to the extent of keeping KHD in the black and stabilising turnover, Mr Kirchgässer admits: "When you're making a turnover of around DM4bn, a profit of DM10m (the net figure in 1991) is insignificant". In other words, KHD is still not far ahead of break-even.

Nor is there much immediate prospect of a sharp upturn. Earnings will remain low for the next few years, one reason being the slack world economy. As Mr Kirchgässer told shareholders: "No major improvements can be expected from the economy in 1992. The phase of economic weakness in western industrial countries is likely to be overcome only slowly."

Last year, operating profits fell by 78 per cent to DM18m, though this was a far cry from the DM402m loss of 1987. Mr Kirchgässer says the 1991 operating result was depressed by DM100m because of weaker markets in its business for standard engineering products. It had to resort to further capacity and overhead cuts to offset some of this damage.

From 1995, however, Mr Kirchgässer expects KHD's fortunes to take a distinct turn for the better. He has already forecast a renewed dividend for 1996 – 10 years after the last distribution – when operating profits should exceed DM100m.

The reason for this optimism lies not just in the Herculean restructuring efforts under Mr Karl-Joseph Neukirchen, who arrived in 1987 from SKF, the ball-bearing concern, to overhaul KHD and return it to profit. It stems also from another move by Mr Neukirchen, now head of the Hoesch engineering company which has been acquired by Krupp. That was the decision to build the world's most modern diesel engine plant at a cost of DM500m in the Porz district of Cologne.

KHD: THE FIVE-YEAR RECORD

	1987	1988	1989	1990	1991
Turnover	DM4.5bn	4.5bn	4.1bn	4.1bn	4.1bn
Operating profit/(loss)	(402m)	(130m)	40m	82m	18m
Net profit/(loss)	(285m)	(75m)	(170m)	30m	10m
Employees	24,075	16,751	15,425	15,022	13,603

Using all the latest manufacturing methods, KHD aims to increase considerably its production of advanced fuel-saving, low-noise, and environmentally-friendly diesels and attack new market segments. "The success of this investment will determine our future," Mr Kirchgässer says. "If it doesn't work, our forecasts will be out." He is confident, however, that the new Porz facility will give KHD a new lease of life. Roughly half its turnover comes from diesels, though this division is currently in the red as a result of the heavy spending at Porz.

KHD has developed several new engines for the plant, which will be operated by its Deutz Motor unit and start production next January with an eventual capacity of 150,000 engines a year. It aims to reduce delivery times to three weeks from the present three months. Productivity will be much higher than at its existing plant in Cologne-Deutz, which produces the same number of engines with 1,800 people; Porz will have 600.

KHD's other diesel unit is Deutz MWM, based in Mannheim. While Deutz Motor's products are designed for general industrial use and to be installed in trucks, buses, and other vehicles (not cars), the larger engines of MWM are used mainly for ships and energy production. The company's aim is to produce around 200,000 engines a year from the mid-1990s compared with 150,000 at present. Of these, more than half will be for industrial use, including the construction industry. KHD also wants to raise the number of vehicle engines from the present 10,000 to around 50,000.

Mr Kirchgässer does not expect much favourable news from the European farm sector. It is in the engine division that the key to a more prosperous future for KHD lies, and the new plant at Porz will be of crucial importance in achieving that.

Continental in new legal bid to balk Pirelli

By David Waller in Frankfurt and Haig Simonian in Milan

CONTINENTAL, the German tyre company, yesterday launched a fresh legal initiative to prevent Pirelli exercising its votes on more than the 5 per cent stake which it holds in the German company.

The appeal to the Hanover court marks a further deterioration in relations between the two companies ahead of Continental's annual meeting today in Hanover at which Pirelli will seek to have Continental's voting rights restrictions lifted.

Apart from the 5 per cent stake, Pirelli has options to buy a further 34 per cent. Today it will launch a second attempt to overturn the rule limiting shareholder voting rights to 5 per cent, whatever the stake.

In its latest move, Continental wants the court to give a definitive ruling that Pirelli should not be allowed to exercise more than 5 per cent of its votes. This follows shortly after a demand from Continental that Pirelli should pay back the dividend it received on its Continental shares last year.

The companies abandoned merger talks in December last year. Pirelli maintains that there is nothing sinister in its challenge today and that it simply wants to maximise the value of its stake by having the restriction lifted.

Continental, however, is treating today's vote as a barely disguised assault on its independence. It and Morgan Grenfell, its merchant banking advisers, have in recent weeks mounted an intensive lobbying campaign to persuade shareholders to vote against the Pirelli motion.

The outcome of today's meeting is likely to turn on the question of whether Pirelli is allowed to vote its entire stake, or whether its votes will be limited to 5 per cent. The decision on this lies with Mr Ulrich Weiss, chairman of the Continental supervisory board and a main board director of Deutsche Bank.

Continental would not comment yesterday on the likely outcome of today's meeting, except to say that proceedings would be "exciting". It is thought likely that Mr Weiss will exercise his discretion and limit Pirelli's voting rights.

Such a move would probably provoke legal action as Pirelli has maintained – and reiterated yesterday – that its option rights over 34 per cent of the German company's shares in no way violated Continental's voting rights restrictions.

At special meeting last March, Pirelli won a motion to overturn the voting right restriction, but the decision was not implemented pending an appeal to the Hanover court. At the end of May, the court annulled the vote, ruling that Pirelli failed to disclose last March that it spoke for more than 25 per cent of Continental.

Pirelli's stress on "maximising the value" of its stake, presumably with a view to its future sale, is understandable. Having taken a huge loss on its Continental shares and the indemnities offered to the other Italian companies in its shareholder pool, Pirelli's focus is on regaining some of the money ploughed into the venture.

However, relations with Continental remain extraordinarily ambivalent. The two companies are still discussing the sale of some of Pirelli's car components operations put on the block as part of the Italian group's restructuring programme.

Also on today's agenda is a motion allowing Continental to raise its nominal share capital by DM150m.

O&Y defaults on California payment

By Alan Friedman in New York

OLYMPIA & YORK is poised to abandon its role in the sprawling Yerba Buena commercial property development in San Francisco after defaulting on a crucial $2m payment that was due this week.

In a separate development, Lazard Frères, the New York investment bank, was hired yesterday by O&Y's US subsidiary to try to raise capital for the Canadian group's US operations.

The San Francisco project was originally supposed to be O&Y's next big showcase, involving a $1bn investment in three office blocks with 1.5m sq ft of space plus an entertainment complex.

Six months ago, the troubled Canadian developer lost its rights to all but one of the office blocks because of missed payments.

According to the San Francisco Redevelopment Agency (SFRA), O&Y has been given until the close of business next Tuesday to make good its $2m payment toward the purchase of land or lose all its rights as the developer of the site.

The 750,000 sq ft office block that would be abandoned would have involved an investment of around $250m.

Mr Edward Helfeld, director of the SFRA, said that if O&Y failed to pay the $2m by next week his agency would collect a $4.4m letter of credit that is being held in escrow in New York.

He said O&Y could also forfeit the $20m of instalment payments it has made to the San Francisco agency since 1990 on the site.

"I find it very difficult to understand why they don't pay us the $2m, keep their rights and get another developer to take over the project," said Mr Helfeld.

O&Y in New York said it believed the company would not make the $2m payment. "The company is conserving cash and it is highly unlikely that we will make that payment," a spokesman commented.

The San Francisco default is not expected to force O&Y's US subsidiary into a bankruptcy filing.

The US subsidiary, which is holding debt restructuring talks with its creditors and is hoping to sell up to a dozen US office buildings to raise cash, has thus far avoided having to seek protection from creditors in a bankruptcy filing.

Lazard Frères said its O&Y team in the US would be led by Mr Felix Rohatyn. Mr Rohatyn who worked closely in the 1970s on the New York city financial crisis with Mr John Zuccotti, the chief executive of O&Y's US operations who at the time was deputy mayor of New York.

The last time O&Y employed Lazard Frères was in the autumn of 1990, when it was retained to seek buyers for 20 per cent of the US property business. The deal did not occur.

Among the top priorities for Lazard Frères will be the search for equity investors who could acquire a shareholding in O&Y' US subsidiary. O&Y is hoping to raise at least $100m by selling a minority stake to one or more investors.

Dividends to fund restructuring

By Bernard Simon in Toronto

A PORTION of dividends paid by companies in which Olympia & York is a shareholder will be set aside to help the ailing property developer fund its restructuring costs, a Toronto court was told yesterday.

O&Y also said the company expected to finalise audited accounts for the fiscal year ended last January within the next day or two. They are expected to include a writedown of at least C$2bn (US$1.6bn) on the value of its real estate holdings.

The allocation of general, administrative and restructuring (GAR) expenses among the lenders and the Reichmann family which owns O&Y has been the focal point of creditors' attention in recent weeks. These costs have totalled about C$8m since O&Y filed for court protection in Canada in May.

Under proposals filed by O&Y and its creditors, about C$5m in dividends due from the newsprint maker Abitibi-Price this month will be used for O&Y's general, administrative and restructuring costs. O&Y owns 82 per cent of Abitibi's shares. A contribution may also be made by Carena, a Canadian property group in which O&Y holds a minority stake. Carena's main subsidiary is Trizec, North America's biggest publicly-traded property developer.

O&Y's shares in Abitibi, Carena and in Gulf Canada Resources, which last week halted dividend payments, are pledged as collateral on some of its C$13.5bn debt.

An O&Y lawyer said in an interview that the company's reliance on dividend income for its restructuring should have no impact on the dividend policies of Abitibi, Gulf Canada and Carena. O&Y estimates that its dividend income this month alone will be be C$15 to C$18m, several times more than its GAR requirements.

Lenders to specific O&Y projects and holders of marketable securities have so far paid the bulk of the restructuring costs. Part of the costs to be incurred over the next few months will also be met through sales of about C$70m worth of unencumbered assets, such as parcels of land and the corporate jet.

Mr Steven Sharpe, an O&Y lawyer, told the court yesterday that the company was anxious to put the GAR issue behind it so that it could have "some quiet uninterrupted time" to negotiate its debt restructuring proposals which are due to be presented to lenders by mid-July.

Investors sought for Aerolineas

By John Barham in Buenos Aires

ARGENTINA is looking for new investors in its privatised airline and is urging the company's Spanish bank creditors to convert their loans to Aerolineas Argentina into equity.

The government is pressing Aerolineas, which is controlled by Iberia, the Spanish airline, to replace undercapitalised local partners with financially sounder Argentine investors. Several wealthy Argentines with major industrial holdings have been sounded out by the government to buy up to 36 per cent of the airline's shares.

Iberia and Spanish banks hold 49 per cent of Aerolineas, with the government holding 5 per cent and employees 10 per cent. Other local minority shareholders hold the remaining 36 per cent of shares.

Bristol Myers to take $46m charge

By Alan Friedman

BRISTOL-MYERS Squibb, the world's third-biggest pharmaceuticals company, is to take a pre-tax charge of $46m in the second quarter following its agreement to settle an anti-trust lawsuit involving claims that the company conspired to rig the prices of infant formula.

The company's Indiana-based Mead Johnson division, which makes the infant formula, yesterday denied the charges, but said it had agreed to pay $38.76m to settle a class action lawsuit brought by wholesale and retail distributors who made the accusations about price rigging.

The decision to settle was made in order to avoid the burden and expense of protracted litigation, the company said.

The $46m pre-tax charge will include the amount being paid to settle the lawsuit as well as the estimated value of donating infant formula to a US government agency as part of a separate settlement agreed last month with the Federal Trade Commission (FTC).

The FTC had charged Bristol-Myers and two other infant formula makers – *Abbott Laboratories* and American Home Products – with price rigging and other improper trading practices.

All three companies denied any wrongdoing, but American Home Products and Bristol-Myers agreed to settle, while Abbott said it would contest the charges.

Yesterday, Bristol-Myers shares fell $1¼ to $65¾.

Thomson likely to shelve bid for LTV missiles side

By Patrick Harverson in New York

THOMSON-CSF, the state-owned French defence group, is reportedly close to withdrawing its $300m bid for the missile operations of US steel group LTV in a last-ditch attempt to prevent the US government from blocking the deal.

The French group is expected to shelve its bid temporarily to give itself more time to find a US partner willing to run the missile company on its behalf. Thomson hopes that such an arrangement, which would leave it as only a passive investor in the missile operation, will assuage US fears that foreign ownership of a key US arms contractor compromises national security.

Three US companies – Northrop, Loral and Raytheon – have been approached as possible partners for Thomson, but none have so far agreed to join the acquisition.

Thomson has had to move quickly because a high-level US government committee set up to review the deal is believed ready to recommend to President George Bush on Monday that the acquisition be blocked on security grounds.

The committee met for the final time earlier this week, and sources in Washington said yesterday that it was highly unlikely that Thomson would be able to clinch a deal with a US partner in time to persuade the committee to reverse its recommendation.

Congressmen and US defence chiefs have let the committee know their concern about allowing LTV's missiles operations to fall into the hands of a company controlled by a foreign government. Thomson is 58 per cent owned by the French state.

The committee has also looked into allegations that the French group broke US and French export laws when selling arms to Iraq during the 1980s. Only yesterday, the US Customs confirmed it was investigating whether export laws were violated in a 1985 sale of Thomson lasers to Iraq. Thomson denies ever breaking US or French export laws.

Although Thomson's withdrawal of its bid would only be temporary, the latest development has cast a shadow over LTV's attempts to sell its assets and emerge from six years of bankruptcy proceedings. Two months ago, a New York bankruptcy court gave Thomson the right to buy LTV's missiles unit over a *rival, but higher, joint bid by* Martin Marietta and Lockheed.

Ban extended on Upjohn's Halcion

UPJOHN, the US pharmaceuticals group, has been told by the UK's Committee on Safety of Medicines that it has extended its ban on Halcion, the world's best-selling sleeping tablet, for a further three months.

The committee said it was taking steps to make sure that a final decision on whether the product should be relicenced would be taken in the near future.

Toshiba, IBM share 'flash' technology

By Steven Butler in Tokyo

TOSHIBA, the Japanese electronics company, is making a bid to recapture leadership in one of the hottest new products in the electronics industry – "flash" memory devices – by means of a technology sharing agreement with IBM.

Toshiba invented flash memory – which stores electronic information in a semiconductor chip even when power is switched off – in 1985. But Intel, the leading US semiconductor maker, captured 85 per cent of the market by designing a product that was simpler to manufacture and cheaper than the original Toshiba design.

The agreement, announced yesterday, pits a Toshiba-IBM partnership against an alliance between Intel and Sharp, the Japanese electronics group, announced earlier this year.

At stake is a market which Dataquest expects to be worth $1.5bn by 1995, compared with about $130m today, and which should continue growing rapidly afterward. Flash memory cards – about the size of a credit card – will start replacing small disc drives in portable computers this year. They store data just like a hard disc, but since they are solid state, they contain no moving parts.

Flash memory cards use less electricity and are much lighter, making them ideal for portable uses. They allow almost instant access to data, thus eliminating the delay when computers have to go back to the disc to retrieve information.

Flash memory also poses a threat to some parts of the market for dynamic random access memory chips since they process information in a similar way to D-Ram chips, at slightly slower speeds. Unlike the D-Ram chip flash does not lose what it is working on when the power goes down.

The Toshiba Nand (no-and internal logic) technology has always in theory been better than Intel's Nor (no-or) circuit design. Nand allows manufacture of a smaller, more highly integrated chip that is more powerful than the Nor technology.

Nand chips also use five volts for both erase and write functions, while the Intel designs requires two voltages, 12 and five volts, making them more power-hungry.

Intel, however, says its chip has succeeded in the market because the Toshiba design required more complex external control circuitry which eliminated the theoretical advantages of the basic chip.

Toshiba is hoping to overcome this obstacle by means of the link with IBM. Toshiba has agreed to share its flash memory technology with IBM, while IBM will share technology under development for a controller device allowing high-speed read and write operations. The two will separately manufacture and market the devices.

IBM's decision to link with Toshiba is a powerful vote of confidence in the basic technology.

Intel joined forces with Sharp earlier this year for two reasons. First, the Japanese company had the technology and the resources to develop and manufacture the next generation of more powerful flash devices. Second, Sharp had the experience, which Intel lacked, in the consumer market with devices like electronic diaries, portable computers, and audio-visual equipment.

By the time the IBM/Toshiba alliance results in new products – probably a matter of years from now – Intel and Sharp hope to have already created a large enough demand for their own product to allow for cheap, mass production.

Guarded welcome for new HK television plan

By Simon Davies in Hong Kong

THE Hong Kong government yesterday announced minor concessions to all three leading groups battling for the right to offer more television to the masses when it approved a new framework for television broadcasting in the colony.

The decision ends more than two years of confusion over the future of cable and satellite television in Hong Kong. The three groups involved, Mr Li Ka-shing's Star Television, the late Sir Y.K. Pao's Wharf group and Sir Run Run Shaw's Television Broadcasts (TVB), welcomed the fact that a decision had finally been made; but all three had hoped for more.

Under the new proposals, Hong Kong should finally receive cable television in the fourth quarter of 1993, four years after the licence was first handed out to a consortium led by Wharf. The consortium folded in 1990, amid internal squabbling and complaints about the government's policy on satellite broadcasting.

A two-year government review followed. Wharf appears favourite to win the latest licence, which will be awarded in January 1993. The government has said preference would be given to consortia offering the fixed-fibre optic cable system, which Wharf has strongly supported.

This enables the operator to provide value-added telecommunications services such as home banking, in addition to television. The winning cable operator will have a three-year "exclusive" licence, after which it will be open to unlimited competition.

Regional satellite broadcaster Star, 50 per cent owned by Hutchison Whampoa and 50 per cent by the Li family, won some concessions after an aggressive campaign to reverse a five-year ban on Cantonese broadcasting and subscription income. With a population that is around 98 per cent Chinese, the appeal of English language broadcasting is clearly limited in Hong Kong.

Li Ka-shing: 'good way forward' for his Star group

From October 1993, Star will be able to transmit three of its existing five channels in Cantonese. From the same date, it will be able to levy subscription on new channels, but these must remain non-Cantonese during the cable operator's three-year exclusivity period.

Star described the government decision as "a good way forward", but Wharf was extremely guarded, expressing concern over the development of a subscription satellite service. Wharf director Mr Stephen Ng said there was only room for one pay television operator in Hong Kong.

TVB, the largest of Hong Kong's two existing broadcasters, claimed the government decision failed "to create a true 'level playing field' for all operators in the industry".

The government decided TVB should be allowed to bid for the cable licence, though it would be unlikely to win. The television station's royalty payments will be reduced and some advertising restrictions removed, but the operating environment is going to become much more competitive.

Battle for Foster's heads for the courts

By Bruce Jacques in Sydney

THE BATTLE for effective control of Foster's Brewing group, the Melbourne-based international beermaker, is heading for the courts.

This emerged yesterday when the National Mutual Life Association (NML), Australia's second-biggest institution, launched a court challenge to the appointment last month of receivers to International Brewing Investments (IBI), the Foster's group's main shareholder.

In the Victoria Supreme Court, NML claimed the appointment, made by BHP on June 2, was unlawful and injurious to NML.

NML's action followed a request from Wardley Australia for payment by NML of more than A$105m (US$78.9m) under standby commitments which formed part of IBI's financing. The standby, known as the CLIF agreement, also involves the HongKong Bank.

Wardley Australia manages the CLIF agreement on behalf of a group of banks known as the Vextin syndicate, owed A$1.2bn by IBI, with security ranking ahead of BHP.

The moves are seen as the beginning of manoeuvring by IBI's creditors to improve their position ahead of any asset sales by a receiver.

BHP has been negotiating since it appointed receivers to IBI to buy out the Vextin syndicate. But speculation has increased that Vextin may opt to appoint its own receivers. Yesterday's events threaten to further impede already slow attempts to resolve the IBI/Foster's situation.

Both HongKong Bank, on behalf of the Vextin syndicate, and BHP said last night they would vigorously defend the NML action which they described as erroneous and without substance.

The action raises the possibility that IBI, controlled by Melbourne businessman Mr John Elliott, could yet emerge from receivership.

Managed funds industry seeks its freedom

Barbara Durr on the US sector's efforts to have speculative position limits removed

THE US managed futures industry is winning important ground in its battle to persuade the Commodity Futures Trading Commission (CFTC), the futures industry watchdog, to raise or eliminate altogether speculative position limits.

The CFTC has given permission for the Chicago Board of Trade to remove position limits on 30-year Treasury bonds and five and 10-year Treasury notes, three of its most heavily traded financial contracts.

Since the commission's decision mirrors a similar ruling earlier this year allowing the Chicago Mercantile Exchange to end position limits on a clutch of currency contracts, the two moves mark an increasing accommodation of the influential funds.

They also set the stage for a far more controversial step by the CFTC. The exchange is now considering raising position limits on a number of agricultural contracts, such as wheat, maize, soyabeans and cotton.

Speculative position limits are caps on the trading positions held by participants who do not produce or use the underlying commodity and are therefore considered speculators. They are meant to prevent price manipulations, such as cornering and squeezing the market, as well as excess volatility.

Managed futures, which in the past decade have gone from nowhere to everywhere, have an estimated $21bn under management. They have long pressed the CFTC and the US futures exchanges to either raise or eliminate position limits.

They argue that position limits have pushed US traders overseas to foreign futures markets where no such constraints exist. Some of the largest managed funds place as much as 70 per cent of their money outside the US.

Spurred by the loss of business to foreign exchanges, the CFTC is reviewing its stance on speculative position limits generally. So far, it has been willing to act relatively quickly to remove position limits on financial futures. These have always been relatively high, but the commission concluded that they were unnecessary in contracts where the underlying products – major foreign currencies and Treasury bonds, for example – enjoyed deep, liquid and efficient markets.

CFTC officials said that two criteria have guided their decisions on the cases so far: that the supply of the underlying products was adequate and unlikely to be subject to manipulations, and that trades are conducted ample arbitrage between the futures and the liquid cash instrument markets.

Managed funds, while happy that limits have been stripped from key financial futures contracts, are especially eager to see position limits lifted on traditional physical commodities.

According to Mr Peter Matthews, a partner in Mint Investment Management Company, some of the industry's fattest returns have been in agricultural contracts. Agricultural markets tend to be less efficient with wider bid-ask spreads than financial futures markets.

Thus, when an agricultural future moves and a trader has the right position it can yield big profits. As funds hit their position limits in agricultural markets, however, they must move to financial futures, where the returns are slimmer.

Fund managers contend that position limits restrict a fund's ability to diversify so its performance is impaired. They claim that a smaller presence of physical commodities in a trading portfolio reduces its value as an inflation hedge.

Mr Morton Baratz, editor of Managed Account Reports, the specialised industry newsletter, says that position limits affect managed funds as they grow larger, particularly after they pass the $200m mark.

The stickiest issue for raising agricultural position limits is that there is a finite supply of deliverable commodities for these futures (whereas financial futures are generally cash settled).

The farm lobby is opposed to the CFTC's proposal to raise the limits on agricultural contracts because they contend that this could subject farmers and agricultural product distributors – who hedge their exposure – to damaging price fluctuations as large funds pile in or out of a commodity.

The American Farm Bureau Federation, the largest US general farm organisation, is also concerned that any change of limits could lead to market manipulation by floor traders and brokers.

In order to handle large orders by funds, local traders might form alliances with brokers who would be dividing up such orders, it said. They then may lose interest in servicing small orders typical of many hedgers. This could mean hedgers facing an increased bid-ask spread to entice broker groups to execute them.

The CFTC has taken these concerns on board. But it says the last increase (in 1987) in limits on agricultural products went smoothly. There was no increase in volatility while the higher limits helped boost trading volume and made the markets more liquid.

The period for public comment on the CFTC's April proposal on agricultural position limits ran out on June 12 but was extended by 45 days to allow a wider study of the proposal.

Ironically, it has historically been hedgers – not speculators – that have been responsible for big squeezes and other market manipulations. Such ploys are harder to execute with today's more sophisticated market surveillance systems.

These factors aside, the combined forces of the managed funds industry and the exchanges themselves – which sorely want the managed funds' business – will continue to argue vehemently for greater regulatory accommodation.

Trading volume at the Chicago Mercantile Exchange rose 25 per cent to top 66.7m contracts in the first six months of 1992. CME futures trading rose 23 per cent while options recorded a jump of 33 per cent.

Interest rate products, including futures and options on Eurodollars, one month Libor and 90-day Treasury bills, set the pace with an increase of 69.5 per cent. Agricultural contracts volume fell by 3 per cent.

Trading volume at the Chicago Board of Trade also rose but by a more modest 8.4 per cent during the half year. Trading of futures and options contracts totalled 75.4m for the six months, up from 69.7m a year ago.

The CBOT's largest contract, the 30-year Treasury bond, has been relatively quiet, but trading in shorter maturity Treasury contracts rose substantially. Futures volume on 10-year Treasury notes jumped 52 per cent and options on the same rose by 169 per cent.

Futures on five-year Treasury notes rose 103 per cent, and options on the five-year notes jumped 314 per cent.

Former Paladin directors rapped

By Simon Davies

THE Hong Kong Committee on Takeovers and Mergers yesterday publicly censured four former directors of Paladin, a listed property company, for failing to disclose to shareholders sensitive financial information concerning bid target New Zealand Equities (NZE).

NZE was acquired by Paladin in 1989 and went into receivership seven months later. Paladin advisers Schroders Asia and Richards Butler were not censured, but the report was highly critical of their actions.

Schroders is facing a HK$101m (US$13.06m) lawsuit from Paladin, claiming damages for its role as financial adviser to its former directors. Those censured yesterday were Mr Anthony Van der Linden, Mr Peter Francis, Mr Avon Carpenter and Mr Peter Fredricson.

Messrs Francis and Van der Linden have already been censured by the committee for acting in concert to consolidate control of Paladin; they have also been banned from taking directorships in Hong Kong listed companies.

Schroders was also accused of breaching the code, while the report said Richards Butler was not "blameless" in a further breach. Schroders said the committee's comments on its role were "entirely unjustified".

Sun Hung Kai raises HK$3.3bn for expansion

SUN Hung Kai Properties, one of Hong Kong's largest property developers, raised HK$3.3bn (US$426m) after expenses from a share placement yesterday, to help fund the group's aggressive expansion into the China property market, writes Simon Davies.

The group is one of Hong Kong's most conservative property developers, but it has recently signed up a number of projects in neighbouring Guangdong Province, after focusing on residential projects in the colony's New Territories.

The company is also involved in a HK$2bn commercial development in central Beijing, and is examining some large infrastructural projects in the Pearl River delta.

Sun Hung Kai's shares have risen 50 per cent this year. The company issued 100m new shares at HK$33.25 per share.

INTERNATIONAL CAPITAL MARKETS

Treasuries go through the roof as Fed cuts interest rates

By Patrick Harverson in New York and Sara Webb in London

US TREASURY prices rocketed yesterday morning after the Federal Reserve cut interest rates in response to an extremely poor set of June employment figures.

GOVERNMENT BONDS

By midday, the benchmark 30-year government bond was up 1¼ at 104¼, yielding 7.681 per cent. The two-year note was also sharply higher, up ⅜ at 100⅞ to yield 4.535 per cent.

Prices rose sharply soon after 8.30am, when the Labor Department announced that the civilian unemployment rate rose from 7.5 per cent in May to 7.8 per cent in June, the highest level since 1984, and that non-farm payrolls fell by 117,000.

Forecasts had centred on a rise in payrolls and little change in the jobless rate, and analysts described the figures as terrible. It was no surprise, therefore, when soon after the data was released the Fed announced it was cutting the discount rate from 3.5 per cent to 3 per cent.

Then, at 11.30am, the central bank lowered its target rate for Fed funds from 3¾ per cent to 3¼ per cent by engineering a big round of system repurchase agreements in the credit markets.

Although the markets had been expecting a Fed ease all week, the unemployment figures really shocked investors, and contributed more to the price rises than the interest rate reduction.

■ UK government bond prices surged by more than half a point yesterday due to the combination of a stronger pound and the US Treasury bond rally.

The 11¾ per cent gilt due 2003/07 climbed from 116⅜ to 117⅜, while the most recent auction stock, the 9 per cent gilt due 2012, rose from 36½ to 36⅞ as dealers reported further buying interest at the long end of the yield curve.

"Talk of further company growth downgrades is helping to enhance the attractiveness of the gilt market over equities right now," said one dealer. Traders suggested the Bank of England may announce further issuance in the form of tap stocks today if the gilt market remains firm.

■ EUROPEAN government bond markets jumped on news of the 0.5 percentage point cut in the US discount rate and the US Treasury bond rally.

German government bonds, which had started the day on a dull note, showed a strong rally in the afternoon. The Liffe bund futures contract, which opened at 87.66, reached a high of 88.16 after the US interest rate cut, but ended the day at around 88.14.

The market had expected to hear further news on the question of a withholding tax on interest income yesterday, but a group of parliamentarians failed to reach a compromise on the proposed 25 per cent tax. The meetings are due to continue next week. The government's proposed tax package would require banks to withhold 25 per cent of the interest payments on bonds and other investments.

French government bonds also picked up on the US news, but traders said the market's gains were held back by yesterday's auction. A total of FFr5.75bn of 10-year bonds was sold at an average yield of 8.77 per cent, a total of FFr4.21bn of the bonds due 2023. On the Matif futures exchange in Paris, the September bond futures contract closed at 107.66, up from 107.34 on Wednesday.

■ THE Italian government bond market suffered another turbulent day as devaluation worries persisted, but the rise in the US market helped to lift Italian bond prices in the afternoon.

The futures contract, which opened at around 95.00, fell to a low of 94.15, but recovered some of the losses and traded at 94.73 by late afternoon.

■ JAPANESE government bonds rallied in London trading as the US Federal Reserve's decision to cut the official discount rate by a half point yesterday raised hopes that the Bank of Japan may soon follow suit.

The government bond market rose in Tokyo trading on hopes of an easing in the US, although heavy profit-taking by investors later in the session wiped out the gains. The yield on the benchmark No 129 issue opened at 5.22 per cent and moved to 5.21 per cent before closing at 5.25 per cent in Tokyo.

However, once news emerged in London that the US discount rate had been cut from 3.5 per cent to 3.0 per cent, Japanese government bonds rallied again and the yield on the No 129 moved to 5.18 per cent.

Dealers said market expectations of a cut in Japanese interest rates ahead of the G-7 meeting next week are strong, despite warnings from Finance Ministry officials that a cut in US rates may not have an immediate influence on Japanese monetary policy.

Separately, the Finance Ministry accepted bids of Y373bn in its sale of 20-year bonds with a coupon of 5.9 per cent yesterday.

● Deutsche Terminbörse, the German options and futures exchange, will change the specifications on its bund futures contract, allowing bonds issued by the Treuhand privatisation agency to be deliverable into the futures contract.

Treuhand, the government-owned institution charged with reorganising and privatising the former East German state-owned assets, has not yet issued any long-term debt but is expected to start borrowing long-term in the international capital markets. The leading US credit rating agencies recently said the agency's long-term debt would carry the top triple-A credit rating.

Liffe, the London-based futures exchange which also trades a bund contract, has not yet altered its contract specification to allow delivery of Treuhand bonds. However, Liffe said yesterday that it is currently reviewing its March 1993 bund futures contract specification.

● Daewoo Group of South Korea plans to set up a joint venture securities house in Hungary by the end of this year, Reuter reports from Seoul. The venture will be capitalised at $2m and will be South Korea's first securities house in eastern Europe.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	108.0581	+0.350	8.79	8.77	9.13
BELGIUM		9.000	06/01	100.9000	+0.150	8.85	8.93	8.79
CANADA *		8.500	04/02	103.3000	+1.100	8.00	8.13	8.47
DENMARK		9.000	11/00	98.6000	+0.175	9.02	9.07	8.66
FRANCE	BTAN	8.500	03/97	98.2164	+0.302	8.95	9.01	8.74
	OAT	8.500	11/02	98.3800	+0.360	8.72	8.79	8.53
GERMANY		8.000	01/02	100.1900	+0.340	7.96	8.04	7.97
ITALY		12.000	05/02	94.4150	-0.496	13.44†	13.19	12.71
JAPAN	No 119	4.800	06/99	97.0400	+0.296	5.38	5.59	5.76
	No 129	6.400	03/00	106.6873	+0.253	5.19	5.30	5.34
NETHERLANDS		8.250	02/02	99.7400	+0.200	8.27	8.33	8.32
SPAIN		11.300	01/02	97.3500	+0.100	11.74	11.46	10.90
UK GILTS		10.000	11/96	103-09	+8/32	9.11	9.23	9.10
		9.750	08/02	104-20	+13/32	9.04	9.20	8.97
		9.000	10/08	101-13	+18/32	8.83	9.03	8.79
US TREASURY *		7.500	05/02	104-02	+38/32	6.92	7.16	7.39
		8.000	11/21	104-04	+38/32	7.64	7.80	7.90
ECU (French Govt)		8.500	03/02	97.5000	0.240	8.89	8.96	8.58

London closing *New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.) Prices: US, UK in 32nds, others in decimal. *Technical Data/ATLAS Price Sources*

Japanese slump leads to European job losses

By Emiko Terazono in Tokyo

JAPAN'S leading securities houses, hurt by the domestic stock market slump and the sharp decline in underwriting business, have been discreetly reducing personnel at their European operations.

In the latest of the moves, Daiwa Securities is considering local staff cuts at its Swiss subsidiary and a reorganisation of its warrant trading desk in London. This follows personnel reductions at European operations of other three leading brokers, Nomura Securities, Nikko Securities and Yamaichi Securities.

The sharp fall in overseas underwriting by Japanese companies, together with the fall of the Tokyo market, has prompted Japanese houses to refocus on their domestic operations.

Over the past few months, Nomura has cut some 20 of its local staff at its Swiss operations, Yamaichi and Nikko have reduced Japanese staff at their London subsidiaries.

Cost-cutting at the Japanese brokers' European operations has been prompted by the plunge in overseas equity-linked financing by Japanese companies. Due to the sharp falls in the Tokyo stock market, overseas equity-linked bonds issued the year ended last March fell 56 per cent from two years ago, to Y4,215.7bn ($33.7bn).

Nikko said its overseas Japanese personnel had been reduced since its domestic operations needed to be strengthened. Nomura said a further 10 per cent in costs would be cut at its Swiss subsidiaries, including rationalisation of back office operations at its Geneva, Basle and Zurich operations.

● Japan Securities Dealers Association has ordered Daiwa Securities and Cosmo Securities to pay penalties for illegal tobashi deals (the shuffling of stocks from account to account to avoid the booking of losses), Reuter reports. Daiwa is to pay Y10m and Cosmo Y5m by July 10.

Turbulent conditions keep new issue business on hold

By Simon London

TURBULENT conditions following yesterday's cut in US interest rates kept most potential issuers away from the international bond market yesterday. However, syndicate officials predicted a flurry of Eurodollar bond issues next week as borrowers moved to lock into lower dollar interest rates.

INTERNATIONAL BONDS

The next major issuer is likely to be the World Bank, which is preparing to launch its seventh global bond issue. The bank's financial year ended this week, enabling the supra-national lending agency to start a fresh borrowing programme. It has raised $9.5bn from global bond issues – which can be traded in both domestic and international markets – since the first deal was launched in September 1989.

An issue of at least $1.5bn is expected, although the maturity and pricing of the deal have yet to be decided. Most firms were expecting a five-year issue, priced to yield 5 to 7 basis points over US treasury bonds.

However, if the US bond market continues to rally the World Bank may opt for a 10-year issue.

One negative factor is the persistent weakness of the US currency on the foreign exchange markets. Yesterday, the dollar stabilised at around DM1.52, from DM1.68 in March, but remains vulnerable to further decline. Some currency analysts are predicting the dollar will fall towards DM1.45 and its lowest ever levels.

Elsewhere, Volkswagen launched a DM400m five-year issue wholly underwritten by Commerzbank. The issue continues the recent heavy supply in the Euro D-Mark sector. In the first six months of the year, borrowers raised $14.8bn equivalent by issuing D-Mark Eurobonds, up from $9bn in the first half of 1991.

Yesterday's issue was considered fair value by other banks but likely to appeal mainly to domestic investors. From an issue price of 100.05, the bonds traded down to 99.50 bid, comfortably inside fees. At this level the bonds yield 42 basis points more than German government paper of the same maturity.

Overseas demand for D-Mark bonds remains buoyant, but it is unclear whether Eurobonds will be affected by the introduction of withholding tax in Germany. Yesterday, a cross-party committee met to draw up new proposals for the re-introduction of the tax.

● Electricité de France, the state-owned utility, had yesterday received 71.8 per cent take-up of its offer to buy back three sterling bond issues, according to UBS Phillips & Drew, purchase agent for the transaction.

On Wednesday, the company offered to buy back three bond issues: £75m 12½ per cent bonds maturing 2008; £75m 11¾ per cent bonds maturing 2009/2012; and £100m 10¼ per cent bonds maturing 2009.

Each of the issues is trading significantly above par redemption value. The 2008 paper was trading earlier this week at 125 per cent of face value.

Investors are offered higher prices under the buy-back offer, since EDF is buying back bonds at a yield spread of 15 basis points over UK government paper. In the secondary market the bonds were trading at a yield spread of 30 to 40 basis points.

● Banca Commerciale Italiana yesterday launched a $200m 15-year subordinated issue in the US bond market. The deal, lead-managed by Lehman Brothers, was priced to yield 116 basis points more than US Treasury bonds of the same maturity.

The funds count as Tier II, or non-core, capital for the bank under international bank capital adequacy guidelines. BCI is the first Italian institution to tap the Yankee bond market.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
CANADIAN DOLLARS						
Banque Nat.de Paris(b)†	50	8.75	101.24	2002	2/1.375	Hambros Bk.
D-MARKS						
Volkswagen Com. SA(c)†	400	8.625	100.05	1997	(c)	Commerzbank
FRENCH FRANCS						
Credit National(d)†	300	8.8	99.80	2000	35bp	J P Morgan
SWISS FRANCS						
Nippon Meat Packers(f)***	200	3.375	100	1998	-	Credit Suisse
DSL(e)†	75	7.25	101.50	2002	-	Gothard Bk.

**Private placement. §Convertible. ‡With equity warrants. †Floating rate note. †Final terms. a) Non-callable. b) Fungible with outstanding C$125m issue launched 17.6.92. Non-callable. c) Fees undisclosed. Non-callable. d) From 1993 to 1999 investors have the option of taking payments in cash or new bonds. Non-callable. e) Full name of borrower: Deutsche Siedlungs und Landesrentenbank. Non-callable. f) Callable on 23.7.94 at 101.00% and on 23.7.95 at 100.50%.

Hungary ends bank's exchange monopoly

By Nicholas Denton in Budapest

HUNGARY has established a foreign exchange, ending the central bank's official monopoly and underpinning progress towards currency convertibility.

Commercial banks begin foreign exchange trading among themselves this month, freed of the obligation to sell hard currency to the state and to stick precisely to the official exchange rate. With liberalisation, the banks have also gained the right to make forward and swap deals.

However, the new interbank foreign exchange market exists within tight contraints.

Exchange rate movements are restricted to within a narrow band of 0.25 per cent either side of a fixed central rate. This may later broaden to 2.25 per cent.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on July 2

	Issued	Bid	Offer	Chg. day	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]					
OTHER STRAIGHTS					
BAYERISCHE VEREINS INT 7 94 LFr	600	94¼	95¼		9.94
COPENHAGEN TEL 8 5/8 96 LFr	600	98	99	-⅛	9.28
[illegible]					
DEUTSCHE MARK STRAIGHTS					
[illegible]					
SWISS FRANC STRAIGHTS					
[illegible]					
YEN STRAIGHTS					
[illegible]					
FLOATING RATE NOTES					
[illegible]					
CONVERTIBLE BONDS					
[illegible]					

* No information available - previous day's price. † Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	72	1	9
Other Fixed Interest	8	1	6
Commercial, Industrial	139	495	808
Financial & Property	143	109	542
Oil & Gas	15	18	55
Plantations	0	0	9
Mines	28	23	99
Others	46	22	61
Totals	451	669	1,589

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price £	+or-
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+or-
[illegible]							

[illegible]

LIFFE EQUITY OPTIONS

Option		Calls			Puts		
[illegible]							

FT-SE INDEX (*2474)

[illegible]

July 2 Total Contracts 46,520. Calls 21,380 Puts 25,140. FT-SE Index Calls 8,520 Puts 9,644. Euro FT-SE Calls 3,778 Puts 3,502. Eurotrack 100 Index Calls 0 Puts 0. *Underlying security price. † Long dated expiry months. Premiums shown are based on closing offer prices.

TRADITIONAL OPTIONS

- First Dealings June 22
- Last Dealings July 3
- Last Declarations Sept 17
- For settlement Sept 28

3-month call rate indications are shown on this page.

Calls in Airtours, Amstrad, ASDA, British Bio-technology, Cannon Street Invs., Crest Nicholson, Enterprise Computer, Gowring, Kunick, Medeva, Polos and Trafalgar House. Puts in Owners Abroad, Pentos, Quadrant and Suter. Put and call in Medeva.

TRADITIONAL OPTION 3-month call rates

■ INDUSTRIALS	p	Charter Cons.	37	Ladbroke	18	Sears	5½
Allied-Lyons	40	Comm Union	34	Legal & Gen	29	SmKl Bchm A	50
Amstrad	2	Courtaulds	32	Lex Service	12	TI	23
Astec (BSR)	3	Eurotunnel	35	Lloyds Bank	32	TSB	11½
BAT Inds	58	FKI	9	Lonrho	12	Tesco	22
BOC	53	FNFC	7	Lucas Inds	12½	Thorn EMI	53
BTR	33	Forte	18	Marks Spencer	27	T & N	11½
Barclays	29	GKN	33	Midland Bank	33	Unilever	70
Blue Circle	24	Gen Accident	38	NatWest Bank	28	Vickers	15
Boots	34	GEC	22	P & O Dfd	37	Wellcome	75
Bowater	60	Glaxo	62	Racal Elect	5½	■ PROPERTY	
Brit Aerospace	20	Grand Met	60	RHM	18	Brit Land	18
British Steel	7	GRE	15	Rank Org	55	Land Secs	30
BT	22	Hanson	13	Rediands	60	MEPC	26
Cadburys	35	ICI	95	Reed Intl	44	Mountleigh	1½

■ OILS	
Amoco Pet	25
BP	18
Burmah Castrol	48
Conroy Pet	6½
Gaelic Res	½
Premier Cons	2½
Shell	50
Tuskar Res	½
■ MINES	
RTZ	47

National Grid charges may be cut

By Juliet Sychrava

OFFER, the electricity industry watchdog, is likely to force the National Grid Company to cut its charges to electricity consumers.

The company may protest to the Monopolies and Mergers Commission if the move goes ahead.

Reports that Offer planned to penalise the company, which owns and operates the electricity network of England and Wales, by tightening the regulatory formula that governs how it can increase its charges, were circulating in the City yesterday.

This prompted falls in the share prices of the 12 regional electricity companies, which between them own the grid company.

One analyst said that National Grid's profits could be trimmed by at least £10m a year if Offer did cut the charges.

Exactly how much profits fall will depend on how much Offer tightens the formula, which at the moment allows the company to increase its charges – which are paid by all customers taking power from the system – in line with inflation.

Every 0.5 per cent below inflation meant another £10m off the company's bottom line, the analyst estimated.

Offer, which has been reviewing the Grid's charges since late last year, is due to announce its decision shortly. "I believe the price cap will be negative [or below the RPI index]," one analyst said.

The pressure for the regulator to cut the National Grid's charges is considerable, because many large electricity users, and regional electricity companies, believe the Grid's charges are pushing up the price of electricity unnecessarily.

Earlier this week, some members of the Major Energy Users Council, which represents large industrial electricity consumers, suggested that one way to help provide British industry with competitive electricity prices was to cut the Grid charges.

Northern Electric surges to £98.2m

By Juliet Sychrava

NORTHERN ELECTRIC, the Newcastle-based regional electricity company, announced a pre-tax profit of £98.2m for the year to end-March 1992, a 42 per cent increase on last year's pro forma £69.3m.

The result was struck on turnover up from £774m to £813.7m. Underlying profits, after adjusting for exceptional price rises in April 1991 and undercharging last year, rose by £19m, or 26 per cent.

Earnings per share improved 44 per cent, from 41.4p to 59.6p, and a final dividend of 13p is recommended making a total for the year of 18.55p.

The bulk of the profits increase came from the main distribution business, which turned in a 28 per cent advance from £71.2m to £90.8m, while income from the supply business – which buys and sells bulk electricity – fell 38 per cent from £6.4m to £4.1m.

The company turned a £1.8m loss from the retail, contracting, and other unregulated businesses, into a £3.3m profit overall, but cut its contracting business, which is still loss-making, by half.

Some £12m of the underlying profit increase was attributable to normal tariff increases, said Mr David Morris, chairman. Another £5m was due to increased sales volumes, which improved by 1.7 per cent, as sales to all classes of customers increased.

Ted Gillards

David Morris: further savings to come through from this year's staff cuts

Net interest charges fell by £5.2m, and income from the company's 6.5 per cent stake in the National Grid Company grew by £1.2m to £10.2m.

Costs were cut across the business by some £6m as 240 jobs – 4.7 per cent of the workforce – were lost.

The outlook for the company was good, Mr Morris said. He expected to cut the contracting business by half again in the current year, down to 100 or fewer staff. Costs will be cut by some 3 per cent again, and there should be further savings from this year's staff cuts.

Analysts expect pre-tax profits of about £110m, putting the company on a prospective p/e of 6.2. The dividend is forecast to be between 20.5p and 20.8p.

● COMMENT

Northern Electric must wonder what it has to do to get a rerating from the City. Analysts still don't rate the company's management – despite the fact that Northern is doing everything the City usually asks from a utility. It has no dubious diversification, an excellent consumer service record and sales volume growth in its main business, and a small under-recovery in the well-managed supply business, which the City generally regards as an ideal position. It is getting rid of loss-making contracting, and making money in retail. It also gave a positive, but not worryingly positive, dividend statement. Perhaps the only cause for concern is the relatively high rate of return and the relatively high tariff increase this year – which could alert the regulator.

Markheath hit by property write-downs

By Peter Pearse

PRE-TAX losses at Markheath, the property group 61 per cent-owned by the Australian Adelaide Steamship Group, increased sharply from £4.08m to £22.7m in the year to March 31.

The increase stemmed from a jump in exceptional provisions from £1.6m to £21.6m.

The final dividend is omitted, leaving shareholders with 0.5p for the year. Last year's final of 2p made a 4p total. Mr Michael Rendle, who a year ago replaced Mr John Spalvins as Markheath chairman, said that the now refinanced Adsteam was "fully supportive" of the dividend move and that it was an advantage to have a stable shareholder.

Turning to Markheath, Mr Rendle said: "This has been a difficult year." However, the company had rearranged its revolving credit facilities "on satisfactory terms", and bank covenants had not been breached. During the year net borrowings fell from £95.4m to £72.9m, though net assets also fell to £55m (£78.9m) – equivalent to 45.1p (64.6p) per share.

Mr Rendle said that Markheath's balance sheet and cashflow were "now under control" and the aim was further to reduce borrowings through asset disposals and more cuts in operating overheads. Over the past two years staff numbers have been cut from 145 to 33, mostly from the construction side.

Of the exceptional charges, £16.5m related to property write-downs and £4.98m to a provision for the 285p (390p) carrying value of the 13 per cent stake in Frogmore Estates, which had a market price yesterday of 264p.

Turnover tumbled to £4.35m (£34.1m), because the company was now "not forced into making distress sales". Rental income was flat at £2.88m (£2.9m) and while the net interest cost was £7.9m (£13.6m), £5.5m was capitalised – "a sensible amount in today's market" – leaving £2.4m (£7m) charged to the profit and loss account.

Losses per share increased to 18.86p (3.21p).

Asda 'delighted' to realise £73m from sale of MFI shareholding

By John Thornhill

ASDA, the UK's fourth biggest grocery chain, yesterday said it was "delighted" to have realised £73m cash from selling its 25 per cent shareholding in MFI, having last year written down the value of the investment to just £2m.

It also revealed that Mr Peter Monaghan, operations director of the B&Q DIY chain, would join the company as retail director, succeeding Mr Richard Harker, who resigned earlier this week.

The appointment provoked some controversy after Isosceles, struggling owner of the rival Gateway grocery chain, said it had already signed an employment contract with Mr Monaghan offering him the post of managing director of the Gateway stores business unit.

Given his action in accepting Asda's later offer, however, Gateway said it no longer considered Mr Monaghan to be an "appropriate" person to join its senior management team and would not try to hold him to his contract.

Mr Archie Norman, Asda's chief executive, said he approached Mr Monaghan with a job offer immediately after he learnt of his resignation from B&Q. The two men knew each other well during their time at Kingfisher.

Asda's cash inflow from the MFI sale will be used to reduce its borrowings which analysts estimate still stand at about £700m in spite of an emergency £357m rights issue last year.

The company will announce its full-year results on Monday, when it is expected to take a substantial write-down on its property portfolio but will outline a strategy for reinvigorating its business.

Although Asda received less money from the "MFI lottery ticket" than had been mooted in recent weeks, Mr Norman said it was still more than had been considered realistic earlier this year. "When I arrived at Asda we were looking at getting only £25m from MFI," he said.

Peter Monaghan: joining Asda as retail director

Two Wiggins companies put into receivership

By Andrew Bolger

Wiggins Group, the property developer and housebuilder which ran into difficulties as a result of its developments in London's Docklands, yesterday put two companies into administrative receivership.

They are Allison Homes and its subsidiary Allison (Contractors), part of the group's housebuilding operations, which had a combined net asset value of £500,000. They incurred a loss of £172,000 in the year to March 31. There were 12 redundancies.

Mr Stephen Hayklan, Wiggins chairman, said his board was not prepared to put any more money into the companies, given the absence of any upturn in the housing market. Wiggins has no guarantees outstanding in respect of either of these companies and continues housebuilding through Wiggins Homes in the south-west of England.

Mr Hayklan said the decision would not affect the rest of the group's business, which now mainly comprises two industrial parks in Kent and Oxfordshire.

Wiggins continued to trade within the constraints set by its banks following a financial restructuring in 1990. Wiggins shares closed 1p down at 8p.

In May, South Quay, the developer of a 300,000 sq ft office block on the Isle of Dogs, was put into administrative receivership.

South Quay was established in 1990 as a separate company as part of the Wiggins restructuring.

Sharply reduced £1.69m loss for Crest Nicholson

By Roland Rudd

CREST NICHOLSON, the Surrey-based housebuilder and property developer, reduced its loss before tax from £33.9m to £1.69m for the half year to April 30.

Last time the group made £21m of provisions against falling land and property prices.

The interim dividend is passed. Mr John Callcutt, chief executive, said it would be restored as soon as prospects improved.

Losses per share fell from 30.68p to 2.87p. Net assets per share declined from 116p to 88p. At the October 31 year end the value was 91p.

However, the company reported operating profits of £2.04m (£6.66m losses) on lower sales of £120m (£126m).

Mr Callcutt said: "We now feel our house is in order and we are operating in a stable, if rather unexciting, market. We remain cautious about the future although we are hopeful of further growth."

After reviewing the company's assets no further write-downs were required.

The lower interest charge of £3.73m (£6.24m) was due to the sale of £50m worth of commercial property. Borrowings declined from £104.1m to £54.5m, reducing gearing to about 60 per cent.

The group felt confident enough to spend £13.5m acquiring land for nearly 700 units at 23 sites.

On the residential side the company made a pre-tax loss of £1.1m compared with £10.4m before provisions. Sales of 570 houses at an average price of £76,000 compared with 549 houses at an average price of £81,000.

Commercial property continued to suffer from economic uncertainties and reported a pre-tax loss of £2m compared with £3.3m before provisions.

Construction improved from £2.08m to £2.55m. The division had orders in excess of £50m which, while below the level planned for, were well ahead of the corresponding period.

An extraordinary £2.36m charge related to the sale of the lossmaking En-tout-cas, the sports surface and leisure business.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Abtrust New Dawn	fin	0.5	Sept 4	0.5	0.5	0.5
Alba	fin	3.75†	Oct 26	3.35	4.75	4.35
Crest Nicholson	int	nil	-	nil	-	0.01
Dewhurst	int	0.63	Oct 1	0.6	-	1.8
Farepak §	fin	3.55	Oct 1	2.72	5	3.87
Fleming (Robert)	fin	23	-	20	33	27.5
Gold Greenlees	fin	5†	Oct 30	5	8.3	8.3
Markheath	fin	nil	-	2	0.5	4
Murray Split Cap	fin	2.5	Aug 31	–	8.3	–
Northern Elect	fin	13	Oct 5	11.38	18.55	11.38
Partridge Fine	int	1	Sept 3	1	-	2.25
Sims Food	fin	8.25†	Oct 1	7.81	11.25	10.25

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

Interest downturn leaves Gold Greenlees at £4.1m

By Gary Mead, Marketing Correspondent

GOLD GREENLEES Trott, the advertising and marketing services group, reported pre-tax profits down by 19 per cent, from £5.03m to £4.09m, on turnover off 12 per cent at £234.1m for the year to April 30.

The outcome included net exceptionals of £482,000 resulting from the sale of subsidiaries, including Pavilion and 70 per cent of Media Solutions. Investment income, however, was badly hit, falling from £1.73m to £836,000, largely due to a final pay-out on an earlier acquisition and lower interest rates, particularly in the US. Operational costs were reduced to £36.5m (£38.2m).

Earnings per share were 17.28p (19.16p). A final dividend of 5p maintains the total at 8.3p.

Mr Michael Greenlees, chairman, said yesterday: "In many ways we believe that we have never been in better shape with only the poor economic conditions spoiling an otherwise encouraging picture."

The company has three offices in the US – in Texas, Minnesota and Georgia – and "all three offices are performing outstandingly" said Mr Greenlees. Her total US pre-tax profits were up 64 per cent to £3.6m (£2.2m). "We have really moved against the trend in North America," he added.

US court dismisses claim against T&N

By Peter Pearse

A US jury has dismissed a $75m (£39.2m) lawsuit brought by Prudential Insurance Company of America against T&N.

In a unanimous verdict, the jury found that the engineering group which in the 1950s and 1960s used to supply fire-proofing materials containing asbestos, had no liability to compensate Prudential for costs which the US company alleged it had incurred and would incur in removing the material from the Prudential Center, built between 1959 and 1962 in Boston, Massachusetts.

Mr Colin Hope, T&N chairman and chief executive, said he was "pleased, but not surprised" by the outcome. He said that about 130 claims had been made against the company. Of these, about 100 had been dismissed or settled, usually without indemnity. Of the 30 outstanding, two were substantially larger than the others – the Prudential Center and the New York headquarters of Chase Manhattan Bank.

The two cases were "similar, but not identical", because of different laws in different states. So, although there was no "direct" precedent, the "dismissal without liability was significant".

T&N argued that the material used was in Prudential's specifications, and the US company would have been as aware of the material's potential dangers as T&N.

Robert Horton

We are asked to clarify Mr Robert Horton's role in the acquisition by BP of the minority shareholding in Standard Oil of Ohio (Sohio) (FT June 30).

On his appointment as chairman of Sohio in 1986, Mr Horton relinquished his BP directorship. Negotiations on BP's initial offer of $7.4bn took place at arms length. The minority shareholders, some of whom referred the bid to the court, were separately advised by a special committee, of which Mr Horton was not a member, chaired by Mr Douglas Danforth, chairman of Westinghouse.

Negotiations improved the original BP offer by $420m and the terms of the final agreement were approved by the court.

The information contained in this document is in summary form and has been derived from, and should be read in conjunction with, the listing particulars dated 2 July 1992 ("the Listing Particulars") relating to MFI Furniture Group Plc ("the Company") prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986 ("the FSA"). The Listing Particulars alone contain full details of the history and business of the Company. The Directors of the Company, whose names appear on page 7 of the Listing Particulars, are satisfied that this document contains a fair summary of the key information set out in the Listing Particulars.

A copy of the Listing Particulars has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the FSA and copies are available at the addresses listed below. Details of the Listing Particulars have also been included in the Companies Fiche Service available from the London Stock Exchange.

In applying for Ordinary Shares in the Company, you will be treated as applying on the basis of the information in the Listing Particulars and on the other terms and conditions of application set out below. Before deciding to apply for Ordinary Shares, you are advised to read the Listing Particulars and, if you are in any doubt about the action you should take, to consult an independent financial adviser authorised under the FSA.

Words and expressions defined in the Listing Particulars have the same meanings when used in this document, unless the context requires otherwise.

The London Stock Exchange has authorised the issue of this document under section 154(1)(b) of the FSA without approving its contents. Application has been made to the London Stock Exchange for the whole of the Ordinary Share capital of MFI Furniture Group Plc, issued and to be issued, to be admitted to the Official List. It is expected that admission of the Ordinary Shares to the Official List will become effective ("Admission") and that dealings will commence on 17 July 1992.

Persons receiving this document should note that, in connection with the Offer and Placing, County NatWest is acting for MFI Furniture Group Plc and no-one else and will not be responsible to anyone other than MFI Furniture Group Plc for providing the protections afforded to customers of County NatWest nor for providing advice in relation to the Offer and Placing.

MFI FURNITURE GROUP PLC

(Incorporated and registered in England and Wales. Registered no. 2128710)

Offer

of 136,974,973 Ordinary Shares of 10p each

and Placing

of 410,177,800 Ordinary Shares of 10p each

at a price of 115p per Ordinary Share

sponsored by

COUNTY NATWEST

and underwritten by

County NatWest Limited — **Charterhouse Bank Limited**

KEY INFORMATION

THE BUSINESS

MFI is the leading furniture retailer and manufacturer in the UK. It operates from 174 superstores and owns one of the largest furniture manufacturing operations in Europe.

MFI's Hygena and Schreiber product brands are the best recognised furniture brands in the UK in their sectors.

MFI has an estimated 11.4 per cent. share by value of the UK household furniture market (excluding floorcoverings). It commands the market for self-assembly kitchens and bedrooms. MFI is also the clear market leader by volume in rigid kitchens.

The Group manufactures 60 per cent. of the goods it sells. Vertical integration is a key strength of MFI, enhancing the competitive position of the retail business.

The Group has strong operational cash flow and its capital expenditure can be adjusted in response to economic and trading conditions.

The management team is experienced and all the Executive Directors have worked for the Group for at least 13 years.

PROSPECTS

MFI's future growth will be founded upon:

- development of the superstore network through refurbishment and the opening of relocated and new superstores
- an enhanced and expanded product range which will assist MFI's market penetration in all product areas, especially beds and upholstery
- further vertical integration where there is the prospect of a high volume of sales and a rapid return on investment
- continuing efficiency improvements resulting from the Group's policy of restraining costs and controlling working capital.

The outlook for the current financial year depends largely on the scale and pace of economic recovery.

TRADING RECORD AND CURRENT TRADING

The following is a summary of MFI's trading record for the four full financial periods since the Buy-out in November 1987, which has been derived from the Accountants' Report in Part III of the Listing Particulars.

Year ended April		1989	1990	1991	1992
Turnover	£m	601.7	594.9	620.7	644.4
Trading profit	£m	91.4	50.9	48.6	73.7
Trading margin	%	15.2	8.6	7.8	11.4

The decline in trading profit between 1989 and 1991 reflected the impact of the recession on the Group's sales, together with increased rents and depreciation charges. The significant recovery in trading profit and trading margin in the year ended April 1992 reflected improved sales between Christmas and the end of February and continued restraint of operating costs.

Allowing for special factors inherent in any year-on-year comparison, underlying sales since the start of the current financial year are broadly in line with last year's levels.

FLOTATION STATISTICS

Flotation price per Ordinary Share	115p
Market capitalisation at the Flotation price	£669 million
Proceeds receivable by the Company after expenses	£545 million
Pro forma earnings per Ordinary Share for the year ended April 1992*	7.5p
Pro forma price earnings multiple at the Flotation price*	15.3 times
Historic loss per Ordinary Share for the year ended April 1992**	(55.0)p
Notional net dividend per Ordinary Share for the year ended April 1992*	3.75p
Notional gross dividend yield at the Flotation price*	4.35 per cent.
Notional dividend cover based on pro forma earnings per Ordinary Share*	2.0 times

*The basis and method of calculation of the pro forma earnings per Ordinary Share and the explanation of the notional dividend are set out under "Pro forma earnings per share" and "Dividends" in Part I of the Listing Particulars.

**The basis and method of calculation of the historic loss per Ordinary Share are set out in Part III of the Listing Particulars. For the reasons stated therein, this number will not be comparable with reported earnings per Ordinary Share after the Flotation.

THE FLOTATION

The Flotation consists of a placing of 410,177,800 Ordinary Shares and a public offer of 136,974,973 Ordinary Shares. Of the Ordinary Shares being marketed, 489,142,360 Ordinary Shares are being issued by the Company and 58,010,413 are being sold by existing investors. No shares are being sold by the Executive Directors or their families. ASDA is selling its entire interest in MFI.

Up to 13,697,497 Ordinary Shares (representing 10 per cent. of the Ordinary Shares available under the Offer) are being reserved in the first instance to meet applications by or for the benefit of Directors and employees of the Company and its subsidiaries.

Following Admission, the issued share capital of the Company will be £58,136,400 and the authorised share capital will be £77,515,200, each divided into Ordinary Shares of 10p each.

If you wish to apply for Ordinary Shares, you must complete and return the attached Application Form in accordance with the procedure for application set out below.

The Application List will open at 10.00 am on Friday 10 July 1992 and will close as soon thereafter as County NatWest and the Company may determine.

It is expected that definitive share certificates (which will be provisional subject to Admission) will be posted to successful applicants on Thursday 16 July 1992 and that dealings in the Ordinary Shares will commence on Friday 17 July 1992. Dealings prior to receipt of share certificates and prior to Admission will be at the risk of the applicant(s). A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated, or at all, or that Admission may not take place.

Individual shareholders with Personal Equity Plans ("PEPs") may request, subject to the normal subscription limits, that their Plan Managers subscribe for Ordinary Shares under the Offer on their behalf up to the statutory PEP and single company PEP limits. Alternatively, subject to certain conditions, Ordinary Shares acquired by individuals under the Offer (including, for employees, Ordinary Shares acquired using priority application forms) are eligible for transfer by those individuals to Plan Managers prepared to accept them within 42 days of their allocation, expected to take place on 17 July 1992.

EXPECTED TIMETABLE

Latest time and date for receipt of applications and payment in full	10.00 am on Friday 10 July 1992
Basis of allocation announced and share certificates despatched	Thursday 16 July 1992
Dealings to commence	Friday 17 July 1992

TERMS AND CONDITIONS

Applications are made on the terms and conditions set out in this document, including the following:

1 The contracts resulting from acceptances of applications under the Offer will be conditional on Admission occurring not later than 9.30 am on Friday 17 July 1992 or such later time and/or date as County NatWest and the Company may agree, being not later than 9.30 am on 31 July 1992, and on the Underwriting Agreement (details of which are set out in paragraph 7(b) of Part IV of the Listing Particulars) becoming wholly unconditional and not being terminated in accordance with its terms. If these conditions are not satisfied, monies collected in respect of applications will be refunded by returning the applicant's cheque or banker's draft or by sending a cheque crossed "A/C Payee" in favour of the first named applicant, in each case without interest and by post to the address of the first named applicant. Application monies received in respect of the Offer pending allocation or allotment or return of application monies or any excess thereof will be retained by the Receiving Bankers in a separate account.

2 Cheques and banker's drafts may be presented for payment on receipt thereof by the Receiving Bankers before the conditions stated in paragraph 1 above are satisfied. The Receiving Bankers may retain share certificates and surplus application monies pending clearance of each applicant's cheque or banker's draft.

3 Subject to the arrangements for employees described in "Arrangements for employees" in Part V of the Listing Particulars, the basis of allocation will be determined by County NatWest in its absolute discretion after consultation with the Company. An applicant may be allocated Ordinary Shares allotted by the Company and/or Ordinary Shares being sold by the Vendors or any of them in such proportions as County NatWest in its absolute discretion may determine. Each acceptance of an application (whether in whole or in part) shall constitute (a) separate contract(s) for the purchase of Ordinary Shares from (a) Vendor(s) and/or a separate contract for the subscription of Ordinary Shares and these terms and conditions shall be construed accordingly in accordance with the normal principles of English law; the remedies available to persons contracting with the Company to subscribe for Ordinary Shares may differ from those available to persons contracting with the Vendors to purchase Ordinary Shares.

4 Subject to the arrangements for employees described in "Arrangements for employees" in Part V of the Listing Particulars, County NatWest may, in its absolute discretion, reject in whole or in part or scale down any application including, without limitation, any application considered by County NatWest to have been made by a nominee unless such application is accompanied by written confirmation of the identity of the intended beneficial owner. County NatWest reserves the right to reject any application in respect of which the applicant's cheque or banker's draft has not been cleared by noon on Thursday 16 July 1992. If any application is not accepted, or is accepted for fewer Ordinary Shares than the ...

AVAILABILITY OF DOCUMENTS

Copies of this document and of the Listing Particulars are available for collection for a period of 14 days from 2 July 1992 from:

County NatWest Limited, 135 Bishopsgate, London EC2

MFI Furniture Group Plc, Southon House, 333 The Hyde, Edgware Road, Colindale, London NW9

National Westminster Bank Plc, Registrar's Department, New Issues Section, 15 Featherstone Street, London EC1

Rowe & Pitman Ltd., 1 Finsbury Avenue, London EC2

Smith New Court, Corporate Finance Limited, Smith New Court House, 20 Farringdon Road, London EC1

from the following branches of National Westminster Bank Plc:

Birmingham, Colmore Centre, 103 Colmore Row

Exeter, 59 High Street

Manchester, 55 King Street

Bristol, 32 Corn Street

Glasgow, 14 Blythswood Square

Newcastle Upon Tyne, 87 Grey Street

Cardiff, 117 St. Mary Street

Hull, 19 Silver Street

Norwich, 45 London Street

Edinburgh, 80 George Street

Leeds, 8 Park Row

Nottingham, 3 Thurland Street

and from: Ulster Bank Limited, Personal Investment Unit, 88/90 High Street, Belfast

Copies of the Listing Particulars are also available for collection from the Company Announcements Office, The London Stock Exchange, Capel Court Entrance, Bartholomew Lane, London EC2 for a period of two days from 2 July 1992.

INSTRUCTIONS FOR RETURN OF THE APPLICATION FORM

BY POST:

Send your completed Application Form to arrive not later than 10.00 am on Friday 10 July 1992 to:

National Westminster Bank Plc, Registrar's Department, New Issues Section, PO Box 859, Hartcliffe, Bristol BS99 1XZ

ALLOW AT LEAST TWO WORKING DAYS FOR DELIVERY

OR BY HAND:

Deliver your completed Application Form by hand not later than 10.00 am on Friday 10 July 1992 to:

National Westminster Bank Plc, Registrar's Department, New Issues Section, 15 Featherstone Street, London EC1

or by not later than 3.00 pm on Thursday 9 July 1992 to one of the other branches of National Westminster Bank Plc listed above or to Ulster Bank Limited at the address set out above.

PROCEDURE FOR APPLICATION

BEFORE MAKING ANY APPLICATION TO ACQUIRE SHARES YOU ARE RECOMMENDED TO CONSULT AN INDEPENDENT FINANCIAL ADVISER

Photocopies of Application Forms will not be accepted in any circumstances.

1 Put in Box 1 your full name and address using BLOCK CAPITALS. Applications may be made only by persons aged 18 or over. However, an adult may apply for the benefit of a minor. To apply for the benefit of a minor, you should put your own name and address in full in Box 1 and, after your surname, write "A/C" followed by the initials of the minor. See Note 6 below for joint applicants.

2 Put in Box 2 (in figures) the number of Ordinary Shares for which you are applying. You may only apply for one of the numbers of Ordinary Shares set out below. Applications for any other numbers of Ordinary Shares are liable to be rejected.

Number of Ordinary Shares you are applying for	Amount payable at 115p per Ordinary Share
250	£287.50
500	£575.00
750	£862.50
1,000	£1,150.00
1,500	£1,725.00

Above 1,500 Ordinary Shares, applications must be in the following denominations:–

Applications	Multiples of
2,000 to 10,000 Ordinary Shares	1,000 Ordinary Shares
10,000 to 50,000 Ordinary Shares	5,000 Ordinary Shares
Over 50,000 Ordinary Shares	10,000 Ordinary Shares

3 Using the table in Note 2 above, put in Box 3 (in figures) the exact amount payable.

4 Sign and date the form in Box 4. The Application Form may be signed by someone else on your behalf and/or on behalf of any joint applicant(s) if duly authorised to do so, but power(s) of attorney or a duly certified copy thereof must be enclosed for inspection and will be returned in due course. If you are applying for the benefit of a person under the age of 18, you, rather than that person, must sign the Application Form. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

5 Pin to Box 5 a single cheque or banker's draft for the exact amount you have entered in Box 3. Your cheque or banker's draft must be made payable to National Westminster Bank Plc A/C MFI and should be crossed "A/C Payee".

No receipt will be issued for this payment, which must be solely for this application.

Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank or building society which is either a member of the Clearing Houses Association or which has arranged for its cheques and banker's drafts to be presented for payment through the clearing facilities provided by the members of that Association and must bear the appropriate sort code number in the top right hand corner.

Applications may be accompanied by a cheque drawn by someone other than the applicant(s), but any monies to be returned will be returned by either sending the cheque or banker's draft submitted with the application to, or will be sent by cheque crossed "A/C Payee" in favour of, the person named in Box 1, and in both cases to the address in Box 1.

6 You may apply to hold the Ordinary Shares which you enter in Box 2 with up to three other persons aged 18 or over. Their full names should be inserted in BLOCK CAPITALS in Box 6. Box 6 must be signed by or on behalf of each joint applicant (other than the first applicant who should complete Boxes 1, 2 and 3 and sign and date Box 4).

If anyone is signing on behalf of any joint applicant(s), power(s) of attorney or a duly certified copy thereof must be enclosed for inspection. Any share certificates in the names of joint applicants will be sent to the applicant named in Box 1.

MFI Furniture Group Plc

APPLICATION FORM

Before completing this form, you should read the guide above carefully.

To: County NatWest Limited,
MFI Furniture Group Plc ("MFI") and the Vendors (as defined in the Listing Particulars)

See Note — Please use BLOCK CAPITALS

1 Mr, Mrs, Miss, etc. | Surname
Forename(s) in full
Address
Postcode

For official use only
1. Acceptance no.
2. Shares allocated

2 I/We offer to acquire ______ — PUT HERE THE NUMBER OF SHARES YOU WISH TO ACQUIRE

fully paid Ordinary Shares in MFI (or any smaller number of Ordinary Shares for which this application is accepted) at 115p per Ordinary Share on the terms and subject to the conditions set out in this form and in the Listing Particulars dated 2 July 1992 and subject to the Memorandum and Articles of Association of MFI.

3 I/We attach a cheque/banker's draft for the amount payable of £ ______ — PUT HERE THE AMOUNT PAYABLE

4 Signature ______ Date ______ July 1992 — SIGN AND DATE HERE

5 Pin here your cheque/banker's draft for the amount in Box 3, payable to National Westminster Bank Plc A/C MFI and crossed "A/C Payee". — ATTACH YOUR PAYMENT FOR THE AMOUNT IN BOX 5

6 **Joint applicants**

The first applicant should complete Boxes 1, 2 and 3 and sign and date Box 4. Insert below in BLOCK CAPITALS the names of any other joint applicants, who must sign in the right hand column below.

I/We join in this application.

JOINT APPLICANTS MUST SIGN HERE

	Mr, Mrs, Miss, etc.	Forename(s) in full	Surname	Signature
2nd joint applicant				
3rd joint applicant				
4th joint applicant				

Current year warning trims 25p from share price

Sims Food rises 13% to £9.3m

By Peter Pearse

SIMS FOOD Group, the meat processor and supplier, yesterday tempered its announcement of continued growth in profits and turnover in the year to March 31 with the caveat that "the opening weeks of our current year have continued the disappointing trend seen in the final quarter of last year." The shares fell 25p to 250p.

Mr John Stone, chairman, said flat demand in the retail side, increasing prices for livestock and supermarket-driven pressure on margins were all factors in the downturn, although he expected the effect to be short term, impacting mainly on the current first-half results.

Pre-tax profits for the year under review expanded 13 per cent to £9.31m (£8.22m) after exceptional charges of £403,000, relating to compensation to three departing board members.

With turnover up 10 per cent to £251.4m (£228m) and operating profits ahead 19 per cent at £11.3m (£9.54m), margins improved from 4.2 to 4.5 per cent.

Consumption of meat was down, Mr Stone said, with volume purchases down 3 to 5 per cent, though the amount consumers spent on meat was up.

However, he warned that the recession was "far from over". The catering division had suffered most with an organic decline in turnover of 12 per cent as consumers ate out less.

Capital expenditure stood at £10m, but is expected to fall to £5m-£6m in the current year. Some £3.5m was spent upgrading plants to meet the Common European Standard on meat production and especially abattoirs, and £5.5m went on new capacity, particularly dedicated plants for specific supermarket chains.

Following November's £13.5m rights issue, gearing fell to 22 per cent (50 per cent) at the year-end and net debt to £8m.

Withdrawal from the chicken abattoir and food machinery agency businesses led to extraordinary charges of £1.96m while earnings rose to 23.4p (22.3p) per share. A final dividend of 8.25p is proposed, giving a total of 11.25p (10.25p).

Robert Fleming increases profits by 59%

By Richard Gourlay

ROBERT FLEMING Holdings, the privately-owned merchant banking group, yesterday reported a 59 per cent increase, to £76.6m, in pre-tax profits for the year to end-March.

The sharp rise came after minority interests and transfers to inner reserves and marks the first time the group has reported at a pre-tax level.

Mr John Manser, chief executive, said that the year had been "satisfactory without being brilliant". Earnings per share rose from 68p to 116.1p and a final dividend of 23p gives a 33p total, up 20 per cent.

Asset management again provided the bulk of earnings from the £27bn of investments under management worldwide. Banking, including the loan book, foreign exchange trading and leasing had a good year.

The capital markets and corporate finance areas were also "active", Mr Manser said.

Securities broking was the one area of weakness, largely due to the group's involvement in Japan, Mr Manser said. In Europe, improvements in the UK stockbroking were offset by a decline in European operations.

● Jardine Fleming, the Hong Kong-based investment bank jointly owned by Robert Fleming and Jardine Matheson, increased post-tax profit by 14 per cent to $84m ($45m) and shareholders funds by 21 per cent to $191m.

Increased package for Thames chiefs

By Angus Foster

SIR ROY Watts, chairman, and Mr Mike Hoffman, group chief executive of Thames Water, saw their total emoluments fall last year after the company's earnings per share growth did not meet targets set by the board for bonuses to be paid.

However, their basic salaries increased by 8.5 per cent and 14.1 per cent respectively, and both were granted substantial share options.

Sir Roy's total package fell from £160,000 to £145,000, as indicated when Thames last month reported pre-tax profits of £236.3m for the year to March 31, an 11.3 per cent increase.

Total emoluments for Mr Hoffman, the highest paid director, fell from £209,000 to £199,000.

Thames also revealed it made a £50,000 contribution to the Conservative Party as the board considered "a Tory election win was in the interests of the company and shareholders".

Sir Roy: granted sizeable share options.

Ferranti head gets 21% rise

MR EUGENE Anderson, chairman and chief executive of Ferranti International, received a 20.8 per cent pay rise last year despite having described the electronics and defence group's performance in the year to March 31 1992 as "unsatisfactory".

Mr Anderson, who joined from Johnson Matthey in 1990 following the discovery of huge fraud in a Ferranti subsidiary, received total emoluments of £464,000 compared to £384,000 a year earlier.

The rise, however, followed a pay cut from £619,000 in 1990.

Last week Ferranti reported reduced pre-tax losses of £39.6m (£96.1m) for the year to March 31.

Mail order boost for Farepak

By Gary Mead, Marketing Correspondent

FAREPAK, the USM-traded mail order distributor and food processor, reported pre-tax profits up 31 per cent, from £3.7m to £4.84m, on turnover ahead 35 per cent to £62.8m for the year to April 30.

Turnover for the mail order business, responsible for the bulk of pre-tax profits, rose by 23 per cent; the division's pre-tax contribution increased 44 per cent.

However, the small travel operation saw pre-tax profits down to £23,000 (£102,000) while food processing declined from £647,000 to £566,000.

Earnings per share improved 29 per cent to 14.3p (11.1p) and a recommended final dividend of 3.55p brings the total to 5p (3.87p).

The net cash balance rose to £5.2m (£4.68m).

Mr Christopher Hulland, finance director, said the improved performance was largely attributable to a widening of the network of its Christmas hamper selling agents, up 10,000 to 50,000.

Farepak runs its hamper selling business as a joint venture with Fine Art Developments.

Greene King extends bid for Morland

By Philip Rawstorne

GREENE KING, the East Anglia-based brewer, said yesterday that it had gained control of 46.43 per cent of Morland, the Thames Valley brewer, and that it was extending its offer until July 10.

The Bury St. Edmunds brewer launched its £101m bid for Morland seven weeks ago after buying a 28.5 per cent stake and receiving pledges for a further 14.9 per cent from the Whitbread Investment Company.

Mr Jasper Clutterbuck, Morland's chief executive, said yesterday that the further 3 per cent acceptances so far gained by Greene King showed that Morland's shareholders "continue to treat the bid with disdain."

He added: "Greene King should recognise the reality of the situation and withdraw its offer immediately."

However, Mr Simon Redman, Greene King's chairman, said he was pleased with support so far from private and institutional shareholders. "Many shareholders are waiting until they know that all the relevant arguments and facts have emerged before deciding whether to accept our offer."

If the Takeover Panel permits, Greene King's results for the year ended May 3, which will include an asset revaluation, will be published on July 9 – 24 hours before the next closing date for the offer.

Kunick moves to aid share price

By Angus Foster

Kunick, the amusement machine and nursing homes group, yesterday attempted to prop up its ailing share price with a statement that its three UK bankers remained supportive.

The shares, which started the week at 3¼p, fell to 2¼p before recovering slightly to 2½p.

Mr Christopher Burnett, who took over as chairman from Mr Russell Smith in May, said the banks were backing Kunick's recovery plans and were continuing to provide facilities on normal terms.

Several directors have been buying in the market. Mr Smith lifted his stake by 200,000 shares at 3p a share. He now owns 8.29 per cent of the company.

7% pay increase for Pilkington chairman

Sir Antony Pilkington, chairman of Pilkington, the glass group, had a pay rise of 7.3 per cent to £335,000 last year.

Pilkington's earnings per share, before exceptional charges, fell from 8.6p to 5.5p in 1991 and the dividend was reduced from 10.5p to 6p.

Statement lops 69p off Hi-Tec share price

By Andrew Bolger

SHARES IN Hi-Tec Sports, Britain's biggest sports shoe supplier, yesterday plunged from 175p to 106p on news that the company was suffering from heavy discounting by overseas competitors such as Reebok and Nike.

Mr Frank van Wezel, chairman, told Hi-Tec's annual meeting that the discounting, together with deepening recessionary conditions affecting consumer spending, had adversely affected the UK market for a longer period than previously expected.

He said: "As a result, our UK results so far this year are significantly below those achieved in the corresponding period of last year, and are below our earlier expectations, and we are experiencing a sharper squeeze on margins".

The meeting was told that these factors would "inevitably have a pronounced adverse impact on our overall results for the first half of this year."

The UK workforce has been cut from 130 to just over 100 and Hi-Tec said it was keeping a tight control on working capital.

One reason for the market's sharp reaction to yesterday's profits warning was that it was in marked contrast to the optimistic note sounded by the company on May 9, when it announced a 10 per cent increase in pre-tax profits to £9.06m for the year to February 2.

Hi-Tec said yesterday that it had seen spending rise after the election and when the good weather started, but that these "false dawns" had proved short-lived.

However, the group emphasised that its street hiking boots were continuing to do well in the US and, while the situation in the UK remained uncertain, it expected results in the second half of this year to show a recovery from the first half.

COMPANY NEWS: UK

Necessity for organic expansion

Gary Mead on Aegis' future following the departure of its chairman

CONSIDERABLE doubt hangs over the short-term future of Aegis, the holding company of Carat, the largest pan-European media-buying and planning group, following the sudden resignation last Friday of Mr Peter Scott, its chairman.

In the face of weak advertising volumes, the group must cut costs, learn how to grow organically rather than by acquisition, and tackle in France – by far its main market – a government inquiry into media buying practices.

Despite the suddenness of Mr Scott's resignation, his departure had seemed inevitable to many people within Aegis. He was, it is said, better suited to acquiring new businesses rather than rationalising them.

The culture of Aegis was already changing to reflect this as two main shareholders began to exert more influence. They are Mr Gilbert Gross, co-founder of Carat Espace, who has a 27 per cent stake in Aegis, and Warburg Pincus, the US investment group, with 14.5 per cent.

Mr Scott built the group, then an advertising agency called WCRS, by acquiring a handful of US, European and Asian agencies; but the turning point came in May 1988, with his purchase of 50 per cent of Carat Espace, the French media buying and planning group.

WCRS bought the other half of Carat in December 1989 and the group's direction changed to concentrate on media buying. Between May 1988 and December 1991, Aegis made 16 acquisitions, mergers and start-ups across Europe, from Barcelona to Moscow, a rapid expansion which coincided with a severe recession.

Carat now has legitimate claim to being a pan-European group, with 60 offices in 18 countries. It buys and sells advertising space for more than 4,000 clients across Europe, claiming that this year it will have a 12 per cent share of the $53bn (£29bn) a year display advertising market.

But that rapid expansion, coinciding with the severe downturn in advertising revenues, has taken its toll. Last year Aegis saw pre-tax profits fall by 19 per cent to £55.2m on turnover of £2.1bn, the first decline since the group went public in 1983. In the UK alone Aegis lost £10.2m. Operating costs rose from £87.2m to £121m in the period. Some £19m of the rise came from acquisitions, mergers and new business start-ups.

"The fundamentals of the business still look good, but Aegis is in a very poor position for 1992 and 1993 is on trust," according to Mr Guy Lamming, an analyst with James Capel. If the group continues to cut costs, it could bounce back in 18 months or so.

As part of the economy drive, many of Aegis's functions are moving to Paris and its London operations are to shrink drastically. Rumours persist within the company that Mr Scott was not invited to relocate to Paris.

That suggestion is firmly denied by Mr Charles Hochman, currently Aegis's deputy chairman and who has taken over from Mr Scott as Carat's chief executive. Mr Scott resigned because he was to unwilling relocate his family to Paris, he said.

"As far as I am concerned that is the reason why Peter Scott resigned and anything else is pure speculation. What's happening today is a moment in a process which started a few months ago and is going to continue. We are in a phase of getting the operation more profitable, controlling costs, and making our operation more efficient."

The importance of Paris to the group began to increase this spring following the death in April of Mr Francis Gross, Aegis's co-chairman. He founded Carat with his brother Gilbert and was personally close to Mr Scott.

Without the support of Mr Francis Gross, with whom Mr Scott had been the architect of the expansionary drive, Mr Scott became more isolated on the board, people within the company said.

Mr Gilbert Gross, who has a reputation as more of a trader than a builder of empires, was appointed last Friday as Aegis's honorary president. According to an Aegis executive, SFEC – a company through which Mr Gross controls his Aegis holding of some 27 per cent – is due almost £50m in deferred payments over the next four years.

Mr Charles Hochman, Carat's new chief executive, and Mr Gilles Gobin, a non executive director, have represented Mr Gross's views on the Aegis board. Mr John Vogelstein, Warburg Pincus's deputy chairman, is an Aegis non-executive director. Following Mr Scott's departure, Mr Gilbert Gross has become honorary president of the Aegis board.

But although some City analysts initially took fright last Friday, depicting the departure of Mr Scott as a "French coup", the reality is that the Gross brothers and Warburg Pincus have been powerful voices on the board for the last two years. If there were a "French coup", it happened much earlier than last Friday, and without any publicly-expressed disapproval from Mr Scott.

His departure leaves the core businesses intact but facing the French investigation into the nature of media-buying. The Conseil de la concurrence, the French equivalent of the UK's Monopolies and Mergers Commission, has spent two years investigating the advertising industry in France.

It is particularly concerned with the complete lack of transparency in the media-buying business, where huge discounts obtained by media-buyers such as Carat are rarely, if ever, passed on to advertisers. The Conseil is unlikely to take action before April 1993, but its investigation hangs over the head of all media-buyers, including Carat.

Carat is heavily dependent on the French market, estimated to be the fifth biggest advertising market in the world. Despite its pan-European network, more than 70 per cent of Carat's revenues are estimated to derive from France. Analysts estimate its French margins are 4 per cent, which might be cut to as low as 2 per cent this year.

Carat believes it is innocent regarding the alleged lack of transparency and abuse of its quasi-monopolistic powers identified in a Conseil report. But it could eventually lose some of the benefits it has enjoyed from high volumes and big discounts – the very factors that underpinned the rationale for creating a huge media buying group.

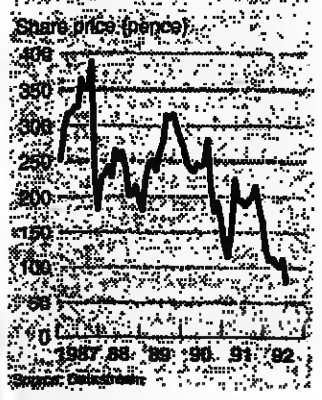
Given the turmoil in Paris, Mr Scott might be looking forward to family life in London.

Ashley Ashwood

Peter Scott: built up the group through acquisitions

Aegis Group

Share price (pence)



NEWS DIGEST

Alba moves 20% ahead to £5.06m

IN SPITE of "continuing difficult trading conditions", pre-tax profits of Alba, the consumer electronics group, showed a 20 per cent advance in the year to March 31.

The increase, from £4.2m to £5.06m, was achieved on turnover down just £257,0000 to £110.9m.

Mr John Harris, chairman, said that with the exception of Hinari Deutschland all divisions within the group had shown improved performances on the year.

Excluding the results from the German offshoot – which was closed during the year – trading profits were up by 73 per cent from £3.3m to £5.7m.

Strong performances were recorded from Alba, Bush and Hinari in the UK, said Mr Harris, while he was particularly pleased with the 50 per cent sales increase from Harvard Maritime and with the turnround into profits at the French operation.

The final dividend is raised to 3.75p for a total of 4.75p (4.35p), covered 1.6 times by earnings per share of 7.79p (7.11p).

Allied Radio loss at £357,000 midway

Allied Radio, which was formed last August through the merger of two commercial radio companies, County Group and Mercury Group, followed by a reverse takeover of Third Mile Investment, reported a pre-tax loss of £357,000 for the half year to March 31.

Mr Ken Prichard Jones, chairman, said that in order to fall in line with the quoted radio sector Allied had changed its year end to September 30. Accordingly it was announcing pro forma six-month results for the main trading subsidiaries, County Sound and Radio Mercury, and a three-month period for Allied Radio.

He said that the company had significantly improved its trading position, mainly through merger rationalisation. The cost reduction programme had exceeded the original estimate and the disposal of non-core assets in the previous Third Mile investment was almost complete.

In addition, the relaunch of Radio Mercury on FM and County Sound on AM had started well.

The pro forma pre-tax loss last time was £703,000. Group turnover for the first half amounted to £2.17m (£2.52m) and operating losses were £249,000 (£541,000). Losses per share came through at 0.85p (2.06p).

To comply with Stock Exchange regulations Allied will announce results for the six months to June 30 in due course.

John Tams seeks to raise £1.6m

John Tams, the USM-quoted domestic china and pottery manufacturer, is raising £1.6m net via a placing and open offer of 2.43m new ordinary shares at 70p apiece.

Existing shareholders are offered new shares on a 1-for-10 basis. The offer is fully underwritten by Lloyds Merchant Bank and the shares have been placed with institutional investors by Panmure Gordon.

As a result of the placing directors' shareholdings, including those of the Tams family, will be reduced from 79.4 per cent to 72.1 per cent.

Of the £1.6m raised, £800,000 will be used to convert the Atlas works. The balance will help to reduce borrowings. Tams' shares slipped 3p to 72p.

Murray Split net assets at 159.7p

Murray Split Capital Trust reported net asset value per capital share of 159.7p at May 31 – the end of its first year of trading.

Net asset value of the income shares stood at 52.3p and zero dividend preference shares 109.5p.

Net revenue in the 52 weeks to end-May amounted to £844,214, equal to earnings per income share of 10.55p. A final dividend of 2.5p makes an 8.5p total.

Partridge Fine Arts shows 34% growth

Although trading "remained difficult" for Partridge Fine Arts, the New Bond Street-based antique furniture and objets d'art dealer, pre-tax profits for the six months to April 30 rose by 34 per cent from £728,000 to £967,000.

Mr John Partridge, chairman, said that prices of the finest furniture and other items had remained strong.

Turnover advanced to £4.88m (£4.41m) and operating profits to £1.61m (£685,000).

The interim dividend is maintained at 1p, payable from earnings per share of 2.94p (2.16p).

Abtrust New Dawn net assets increase

Abtrust New Dawn Investment Trust, which specialises in Pacific region markets, had a net asset value of 125.79p per share at April 30, compared with 123.86p a year earlier. The figure stood at 104.02p at October 31.

Net revenue for the year was £182,722 (£157,882). Earnings per share rose from 0.53p to 0.61p and the dividend is maintained at 0.5p.

Dewhurst up 54% despite recession

Dewhurst, the electrical control equipment manufacturer, reported a 54 per cent profits increase for the six months to March 29.

The advance, from £201,330 to £309,874 was achieved on turnover up by some £300,000 to £4.21m.

Directors said the results showed an encouraging improvement in a period of persistent recession.

Earnings per share improved to 1.85p (1.22p) and the interim dividend is raised to 0.63p (0.6p).

Unilever makes Argentine purchase

Unilever, the Anglo-Dutch consumer products company, has acquired Establecimientos Fabriles Guereño, Argentina's largest laundry detergents producer, for an undisclosed sum.

Guereño, which also makes soap, has annual sales of about $90m (£49m) and 1,500 employees.

Sharp decline at CA Sperati

CA Sperati (The Special Agency), the south London-based button and trimming merchant, saw profits dip to £12,302 pre-tax for the six months to April 30.

The decline from the comparable £26,658 reflected a "dull trading climate" and conditions remained "unpredictable" directors said.

Turnover fell 8.8 per cent to £340,045 (£372,882). Earnings per share emerged at 8.1p (18.55p).

COMPANY NEWS IN BRIEF

BUNZL has acquired Camelot, a redistributor of coarse paper and plastic products, based in Atlanta, Georgia. Camelot, valued at $8m (£4.2m), had sales of $36m in the year to October 30 1991.

HENDERSON EUROTRUST: The offer for subscription attracted applications for 17.31m units comprising one ordinary share of 5p and one zero dividend preference share of 20p at a subscription price of £1. All applications have been allotted in full.

SHANGHAI FUND (Cayman): Dealings in the shares of the fund, which specialises in listed Chinese securities, have begun. The fund raised $17.7m (£9.3m) via a placing by Financiere Indosuez of 1.77m participating shares at $10.4 per share. The shares are listed on the London Stock Exchange.

WILLOUGHBY'S CONSOLIDATED (a mining and ranching company in Zimbabwe controlled by Lonrho): Pre-tax profits £1.83m (£270,000) for the six months ended March 31 1992. Turnover was £5.96m (£5.67m). Earnings were 17.6p (1.7p) and the interim dividend is 1p (same).

TLS RANGE has received valid acceptances in respect of 3.19m (56.5 per cent) of the 5.65m new ordinary shares on offer in its recent rights issue. The balance of 2.46m shares has been taken up by underwriters.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims- Clyde Blowers, First National Finance.

Finals- Anglo St James, Fuller Smith & Turner, Greig Shipping, Joseph (Leopold), TR Technology.

FUTURE DATES

Interims-	
BWD Securities	July 22
Jacobs (John I)	July 17
National Home Loans	July 15
Finals-	
ABI	July 17
Bucknall	July 15
Hampson Industries	July 14

RECRUITMENT

JOBS: The scrapping of whole layers of management leaves less room for top talent to show itself

Where to find future company leaders

AMONG the numerous prized qualities possessed by Jobs column readers, it seems, not the least is an unusually long memory. Take for instance the antiquated pop song, "How do you speak to an angel?", cited here four weeks ago. No fewer than 29 of you claimed to recall same – over half identifying it, I think correctly, with Dean Martin in the early 1950s – including a civil servant who sort of sang the whole thing over the telephone.

Nevertheless I doubt that as many of you can come up with the goods on today's test, even though the quotation which needs to be identified is a good dozen years more recent. It goes:

The most intangible and yet by far the most important factor in improving industrial efficiency is the quality of industrial management. There is now a growing interest in management education, and it is expected that in the next few years the increased quantity and quality of management education of all kinds will be making an important contribution.

The source, in fact, is Britain's one and only National Plan, published in September 1965. And my reason for recalling it is that now, after nigh on 27 years, there appears to be a possibility that one of the assumptions buried in it may at last prove justified.

Even so, there is no shame in failing to remember the plan as originally formulated, because besides being a unique exercise it was an extremely short-lived one. Just about the only aspect of it that remains at all contentious is why the British security services were sent to comb London for a pre-publication copy which went missing just before the launch. (Certain government officials of the day allege that the Jobs column's esteemed colleague Samuel Brittan, who advised on the plan, left the said copy on a bus; Sam himself dismisses such claims, saying he only *thought* he'd left it on a bus.)

By contrast, almost everything planned in the plan was swiftly and conclusively decided by events, in the adverse direction.

Perhaps the prime example is referred to in my quotation. For the thing to which management education was officially expected to contribute was a projected average growth in national output of around 4 per cent a year.

Indeed such was the planners' faith in management education that, if I remember aright, they expected it alone to generate an eighth of the envisaged growth rate. And while the quotation talks of all kinds of management education, the faith was mainly invested in one sort: the master's-degree courses then being set up, particularly in the specialist university business schools at London and Manchester. The expectation was that the Masters of Business Administration and such produced by those courses, would soon take over the topmost tiers of British management.

The fact that they largely haven't done so vindicates the few sceptics of the time. Their argument was that the executives already in post, while perhaps ignorant about Bayesian decision-trees and the like, had certainly gained political skills in fighting their way up the promotional ladder. They would therefore find ways of stopping the MBAs from being inserted above them.

But although the past quarter century has seen the sceptical view prevail, the last three or four years have brought changes that could well countermand it. With organisations scrapping whole tiers of management, there are not only far fewer people in middle-rank blocking positions, but often no longer enough lower rungs on the ladder for it to provide adequate training for work on the highest perches. So where are the future big-company leaders to come from?

Well – while the answer given by some observers of the British scene goes "Eton, Winchester... and Oxford, of course" – the majority of senior managers and headhunters I've sounded are less cynical. They're more inclined to think MBA courses may at last come into their own, despite the bad effects of importing earmarked "crown princes" on the motivation of other employees.

There is, however, at least one exception in the headhunting field who maintains there is no need for companies to court such dangers. He is psychologist Rob Irving of the Whitehead Mann consultancy in London, who besides having tested some 2,000 managers of all ranks over the past six years, has made a special study of 300 senior executives ranging upwards from functional directors of subsidiary companies to group chief executives.

As a result, he believes that far from having to recruit outside, all companies need do to find their future leaders is look searchingly at those working in their more junior ranks. For the traits making for success at the heights are identifiable by the time people are in their late 20s.

Moreover, when it comes to intellectual skills such as verbal and numerical reasoning, the 300 proven performers' test scores cast doubt on the relevance of the MBA qualification to practical company leadership. While they resembled the generality of managers in scoring in the top 15-10 per cent of the population, they did not show the still more rarefied intellectual cast of mind associated with academic degrees at master's level.

Where the 300 *do* differ from managers in the large sense is in personality. They are somewhat more extraverted than pure chance would predict and, at the very highest rank, considerably more intuitive and visionary. But their most marked differences are in three particular areas.

First, they have a voracious need for power. "In a group of managers picked at random, they'd stand out as domineering," Rob Irving says. "It's not just that they like taking charge; it's that, try as they might, they couldn't do otherwise."

Second, they are avid for personal achievement, not only having extremely high aims, but being tireless and ruthlessly competitive in pursuing same.

Their third big distinguishing mark is a propensity for planning ahead in the sense of making a firm decision as to what is going to happen, and getting others to bring it into being. Typically, too, they find calculated risk-taking attractive, whereas the bulk of managers are averse from it.

True, the picture emerging from the study is something less than humanly appealing. But that's not the point, Rob Irving says. As things are, people of the sort portrayed seem to be the best at heading big companies, which in turn are essential to modern economies. So if the rest of us want to prosper materially, we'll just have to grin and bear it.

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ACCOUNTANCY COLUMN

East meets West as auditing history is made

By Hashi Syedain

A PIECE of accounting history was made recently when the signature dried on the audit report of AKP Sovcomflot, a Russian shipping company, believed to be the first former Soviet enterprise outside banking to be fully audited to international standards.

It may come as a surprise that it has taken this long. But in the chaotic dash towards market economics in the Commonwealth of Independent States (CIS), accounting reform has not been a top priority. Although the big accountants were some of the first Western firms to tap into the Soviet Union, much of their work has been with joint ventures – mostly through the Western partner – or as consultants. Apart from Sovcomflot, only joint ventures and one or two banks have so far managed – or deemed it necessary – to produce audited accounts in a meaningful form.

The practicalities of the Soviet accounting system were as much shaped by communist rule and the needs of a command economy as any other aspect of economic or social life. Mr Andrew Cunningham, a partner at Moore Stephens and part of a UN task force on accounting reform in the former Soviet Union, says the raison d'être of accountants was entirely different to their role in the West.

"In the West the chief accountant is usually the most knowledgeable person about the state of a company's affairs," he says. "He will know everything going on in the business. That's the last thing you want in a centralised system – you want your accountants to be thick and unimaginative.

"It used to be that all accounting records needed to show was whether production targets had been met and what resources were used in the process. If you were a tractor factory, all the centre wanted to know is did you produce your 2,000 tractors and what materials did you use, end of story."

He says there was no concept of profit, no concept of bad debt (or indeed of security, since all debts were effectively backed by the government and therefore secure) and no concept of return on capital. In short, the basic measures of performance in a market economy were irrelevant and thus unavailable. Everything that was recorded was done so on a purely cash basis. If an enterprise owed money, but had not paid it, it was simply ignored.

Cunningham believes that the contrast with Western accounting is so great that without reform, the former Soviet Union "hasn't got a prayer". Any company wanting to borrow in western financial markets will get short shrift from banks if it cannot provide meaningful information about the state of its business, he points out.

For companies wishing to privatise, audited accounts are even more important. More basic still, says Cunningham, how can any company introduce basic financial disciplines or plan for the future without meaningful accounting records set up to measure performance and profitability?

It is Mr Cunningham's signature which lies on Sovcomflot's audit report. The company was set up by the Soviet government six years ago as a vehicle for modernising the huge but ageing merchant fleet. It is owned by the Russian Ministry of Merchant Marine and various ship operators in the CIS states. Head office is in Moscow with international subsidiaries scattered around the globe.

Sovcomflot's decision to be audited was taken for two reasons: to speed its path to becoming fully westernised, and to show the creditors of the offshore subsidiaries the state of the parent company. There is no requirement for an international audit in the CIS and the accounts are not publicly available. But they will show a net worth of $800m, a fleet worth $2bn, and a loss of $53.4m after extraordinary items.

The shipping company Sovcomflot is believed to be the first former Soviet enterprise outside banking to be fully audited to international standards

Moore Stephens, which specialises in shipping, has been working for Sovcomflot for several years. In 1990 it produced a set of Western-style accounts for the company as a first step to a full-blown audit. But despite the groundwork that had gone into the company – and the fact that parts of Sovcomflot were used to Western business methods – it was still a big leap from drawing up accounts to auditing them.

One example concerns currency. Most of Sovcomflot's transactions were in dollars, so it made sense to produce a dollar audit. But the decision over which exchange rate to use was difficult. Until the beginning of this year, there were two kinds of roubles, one which was notionally convertible and another totally non-convertible. The accounting records were not set up to identify them separately, but the two differ by a factor of more than 60. On top of that, the non-convertible rouble was devalued by Boris Yeltsin's government on January 2 this year, two days after the end of Sovcomflot's accounting period. The auditors chose the devalued rate for the non-convertible, and the December 31 date for the convertible currency.

Hard and soft roubles also featured in disentangling the web of loans and debts between Sovcomflot, the Ministry and the various state shipping companies. When all were part of one giant central machine, it did not matter. Now that Sovcomflot is acquiring an identity in its own right – separate from the Ministry and with independent shareholders – it has become a central issue.

On a more practical level, Sovcomflot's location in a ministry building meant a standard government day from 9am to 5pm that threatened to double the time required for the audit.

"There's a totally different work culture, says Mr Christopher Chasty, partner in charge of the Sovcomflot job. "Office workers aren't used to overtime. But with four Moore Stephens staff in the Moscow Savoy at room rates of $340 a night, Sovcomflot was keen to press on."

Special permission was granted for the auditors to stay late. Even then they ended up on one occasion discovered at midnight by the Ministry's ominously titled Head of Protocol, who presented his business card, handed round Russian brandy, and then politely but firmly escorted the foreigners from the building.

In spite of the problems faced by Sovcomflot, auditing accounts for a shipping company is a relatively straightforward business. The enterprise's main assets are ships – 90 complete, and another 40 in the process of being built – which are international commodities and easy to value. A manufacturer making products for the local market, by contrast, would be far more difficult to audit. No one has yet seriously tried to put a value on stock, work-in-progress or machinery in old CIS enterprises and without that an audit is out of the question, Chasty argues.

To make matters even more complicated, accountancy as a profession doesn't really exist, Cunningham says. There are economists, who are academics, and there are accounts staff who are basically clerks and bookkeepers. In a very status-conscious society, the accounts staff are well down the social ladder, and generally not a company's high fliers.

"Gleaning information which they are not used to providing is very difficult," says Chasty. "You have to explain exactly the reason you want certain information. If your questions aren't specific, they can't answer."

Training a new breed of accountants is a mammoth task. At the beginning of this year Russia adopted a new Chart of Accounts, a basic accounting document drawn up by the UN task force. But events have moved so fast that the task force is already working on its replacement.

"If they want a market economy," says Cunningham, "they have to have market accounting."

COMMODITIES AND AGRICULTURE

Nervous platinum market climbs to 13-month high

By Kenneth Gooding, Mining Correspondent

THE PLATINUM price yesterday continued the rise prompted by renewed political tension in South Africa, which accounts for about 70 per cent of world production. Platinum's performance and an unexpected cut in the US discount rate helped push gold through an important technical resistance point. $345 a troy ounce.

Since Monday, fears about possible strikes at the South African mines have lifted platinum in London by $20.65 an ounce or nearly 6 per cent. Yesterday the metal closed in London up another $3.90 an ounce at $387.90, its highest level since May last year. On the New York Commodity Exchange (Nymex) July platinum reached $400 an ounce yesterday morning.

Analysts suggested a South African miners' strike was unlikely but it was too risky to go short of platinum during the present rally. Platinum in the past has moved up $50 to $100 an ounce in a matter of weeks, they pointed out.

Mr Jeremy Coombes, analyst at Johnson Matthey, the world's largest platinum marketing organisation, said that platinum might move to $400 an ounce more quickly than he previously expected and a sustained move above $400 could trigger renewed interest by US investors. However, Mr Andy Smith, analyst at Union Bank of Switzerland, suggested the market was not taking account of weakening Japanese economic activity.

Study dents gold price hopes

By Kenneth Gooding

HOPES THAT a fall in production from the world's mines will help to stimulate a revival in the price of gold are dented by the latest study from the Gold Institute, an international trade association based in Washington.

This shows the gold industry is forecasting that production world-wide will increase by nearly 5.5 per cent from 67.254m troy ounces last year to 70.929m in 1995.

While a substantial fall in output in South Africa, the biggest gold producer, is predicted during this period – by 6.5 per cent from 19.234m ounces to 17.972m ounces – this is more than compensated for by dramatic growth in other countries such as Chile, China, Ghana, Guyana and the Philippines.

The study, covering the 68 countries in which mine or expect to mine gold, was produced with the help of 235 mining entities which supplied the Institute with their reports and projections.

The institute cautions, however, that "earthquakes, floods, accidents, strikes or unexpected declines in market prices will cause the actual production to be less than the projections".

It also points out that countries outside the former eastern bloc expect annual gold output to rise by only 1.3 per cent a year on average for the next four years compared with an average of 8 per cent in the past ten years.

One assumption made by the study that will cause some debate is that annual gold production from the Commonwealth of Industrial States, the world's third-largest producer, will remain constant until 1995 at 7.78m ounces.

It suggests that China's gold output will rise by 21.5 per cent, from 3.537m ounces last year to 4.299m in 1995. Other predicted substantial increases over the period are in Chile, up 39 per cent to 1.286m ounces in 1995; the Philippines, up 38 per cent to 1.187m ounces and Ghana, up 97 per cent to 1.234m ounces.

World Mine Production of Gold 1991-1995. US$50 from the Gold Institute, 1112 Sixteenth Street, Suite 240, Washington, DC 20036, US.

World Gold Production (million troy ounces – share of total in brackets)

	1991	1993*	1995*
South Africa	19.2 (28.5%)	18.8 (27%)	18.0 (25.4%)
US	9.6 (14.3%)	11.2 (16.1%)	12.2 (17.2%)
CIS	7.8 (11.6%)	7.8 (11.2%)	7.8 (11%)
Australia	7.5 (11.2%)	7.5 (10.8%)	7.2(10.2%)
Canada	5.7 (8.5%)	5.0 (7.2%)	5.1 (7.2%)
China	3.5 (5.2%)	3.9 (5.6%)	4.3 (6.1%)
Brazil	2.4 (3.6%)	2.5 (3.6%)	2.6 (3.7%)
Others	11.6 (17.2%)	13.1 (18.7%)	13.7 (19.3%)

*Projected Source: Gold Institute

Kazakhstan in forefront of CIS energy rush

Neil Buckley and Haig Simonian explain the republic's appeal to foreign investors

AS WESTERN oil companies stream into the former Soviet Union in search of reserves, two significant deals in less than two months have propelled the central Asian republic of Kazakhstan to the forefront when it comes to attracting foreign investment.

Chevron, the fourth largest oil company in the US, finalised an agreement in May to develop Kazakhstan's Tengiz oilfield, with recoverable reserves estimated at between 6bn and 9bn barrels of oil, ranking it alongside some of the bigger fields in Saudi Arabia. The deal is worth $1.5bn over the next three years, and could be worth as much as $20bn over the expected 40-year life of the field.

This week, British Gas and Agip, the Italian state oil company, won exclusive negotiating rights to develop the Karachaganak field, with 20 trillion (million million) cubic feet of gas, and another 2bn barrels of oil and condensate. It beat competition from a consortium of BP and Statoil, the Norwegian state-owned oil company, and hopes to reach final agreement by next summer on a deal involving $6bn investment in the first ten years.

The former Soviet Union, with the biggest gas reserves and among the biggest oil reserves in the world, has become a magnet for oil companies seeking to improve their reserves/production ratios.

Deals have been few, however. Fears about political instability, the remoteness and difficulty of developing reserves in some regions, and sometimes their sheer size – as well as local bureaucracies unaccustomed to doing business with western companies – have all played their part in limiting the number of agreements signed.

Kazakhstan has been conspicuously successful, partly due to its sizeable reserves and the fact that these are within reach of Europe. But Mr Robert Gray, country manager for the former Soviet republics at J.P. Morgan, who advised on Chevron's Tengiz deal, also points to the influence of Mr Nursultan Nazarbayev, the Kazakh president.

"Mr Nazarbayev is genuinely committed to economic reform and attracting western capital. The political system is also relatively simple, with muted opposition," Mr Gray says.

Mr Nazarbayev has exerted a personal influence on the Tengiz negotiations, through Mr Kalyk Abdulayev, deputy prime minister and head of the republic's economics committee, who heads the Kazakh negotiating team. The president himself signed the final agreement with Mr Kenneth Derr, Chevron chairman, in Washington.

The break-up of the Soviet Union has also helped disengage the brakes.

"Previously you had to negotiate with a production enterprise, a local government, a republican government, and the Soviet government. Now the Soviet ministry layer has been removed, and the republican governments tend to have a more direct line to the enterprises," Mr Gray says.

The Karachaganak deal is a good example of the potential benefits to all parties of deals with the former Soviet republics.

Kazakhstan is set to become an important oil and gas exporter by the end of the century. While staffing levels are not yet certain, the development will provide employment, as well as housing and other facilities, for Kazakhs.

British Gas says the deal will double its worldwide reserves. Moreover, it will play an important part in achieving the stated aim of Mr Robert Evans, chairman and chief executive, of increasing the proportion of total earnings coming from exploration and production from 15 per cent to 40 per cent by the year 2000.

This will reduce the company's reliance on its UK marketing operations, where it must surrender 50 per cent of its share of the industrial market by 1995 and may face competition in the household market as early as next year.

Karachaganak may also help dispel the doubts of analysts who have been looking for proof that British Gas can achieve the growth it is looking for in exploration and production.

BG says it regards Karachaganak as a low-risk development, and pipeline infrastructure already exists that would allow the export of both oil and gas to Europe, although some new construction may be necessary. At its peak, the field should produce 2bn cu ft of gas a day – similar to the UK's biggest gas field at Morecambe Bay, and 200,000 barrels of oil. The contract could last for 60 years.

The deal also has profound implications for Italy, which relies heavily on oil and natural gas imports, and where the government has since the early 1970s been promoting the use of natural gas over oil for both household consumption and electricity generation.

Natural gas accounts for about 26 per cent of Italy's total energy needs, compared with a European average of 16 per cent. Italian usage has been reinforced by the 1987 referendum vote blocking the nuclear programme. Having risen from just 9 per cent in 1970, the share of gas in overall energy consumption should reach around 33 per cent by the end of this century.

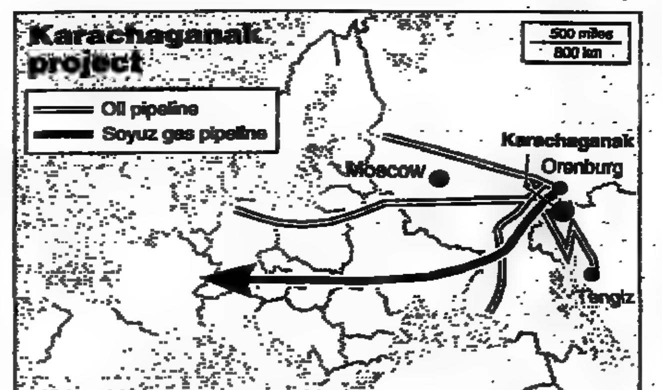
The country has been keen to diversify its gas supplies, currently running at about 50bn cu m a year. About 60 per cent of supplies come from Algeria and Russia, with Holland accounting for a further 19 per cent.

At a press conference in Rome, Mr Gabriele Cagliari, chairman of the state owned ENI energy and chemicals group, which owns Agip, said Karachaganak alone could meet Italy's current consumption for 11 years. The field will increase ENI's oil and gas reserves by 50 per cent.

"It is the most important contract ever signed between ourselves and another country," said Mr Cagliari.

He stressed that the estimates for the field's reserves probably represented a minimum, based on current extraction technology, and could be revised upwards in the light of technological advances.

With a population of about 17m and rich reserves of oil and gas, as well as gold, silver, copper, lead and chromium, some observers say it may not be too much of an exaggeration to suggest that Kazakhstan could become the Saudi Arabia of central Asia.



Iranian oil minister attacks carbon tax plans

By Karen Fossli in Bergen

A GRAVE warning of heightened political instability in the Middle East if "carbon taxes" planned by several countries including the European Community were to get the go-ahead is to be given by Mr Gholamreza Aghazadeh, Iran's petroleum minister, in a speech today to delegates at a two-day ministerial conference here on energy.

The carbon taxes would be imposed on fuels giving off emissions of carbon dioxide, the gas mainly responsible for the so-called greenhouse effect.

Dr Subroto, secretary general of the Organisation of Petroleum Exporting Countries, yesterday rejected the rationale behind carbon tax proposals and called instead for the elimination of subsidies to coal producers and farmers. He also suggested that taxes be levied on chemicals used by the agriculture industry.

"We believe that the proposed tax is yet another form of excise tax intended to raise government receipts [from oil revenues] which, in some countries, are already more than three times the petroleum export revenues of the developing oil-producing countries," Dr Subroto told conference delegates.

The informal meetings, taking place at a heavily-guarded, secluded seaside resort outside the Norwegian west coast city of Bergen, are intended to promote a dialogue between oil producers and consumers. But they are not expected to yield any formal accords between the 25 countries represented.

In a speech prepared for delivery today Mr Gholamreza calls for oil prices to double so that Middle East producers can regain their 1974 purchasing power, which he says will help ensure political stability in the region. He warns that a carbon tax – which he believes will lead to lower oil prices – will seriously affect producers' plans to meeting world through increased production.

"It will disrupt the market mechanism due to introduction of uncertainty. . . our trade relations will suffer. . . [and] most important of all our economic development and that of our future generations will be endangered."

"Downward pressure on oil prices must come to an end at all costs if leaders of the industrial world want to have a realistic policy for long-term supply security," the minister warns.

With the greatest part of the world's oil and gas reserves belonging to Opec and the Persian Gulf Mr Gholamreza stresses that these areas' political security is inseparable from the rest of the world's energy security.

"Ever since 1975, oil producers' real income has drastically decreased due to industrial states' policies. This poverty threatens the oil producers' political stability."

Mr Gholamreza questions whether consumers have benefitted from lower oil prices or if oil products actually reached them at higher prices because of to heavy taxation.

He supports his argument by pointing out that the six leading industrial nations, through taxes, are at present earning twice the petroleum revenue of the six main Opec producers.

Mr Guiseppe Guarino, Italy's industry minister, called yesterday in Bergen for environmetal concerns to be taken into account more fully in consideration of energy policy.

He urged a reassessment of the contribution of non-traditional energy sources and in particular nuclear energy.

"The present [energy] workshop can be a great success if we will be able to go from declarations of principles to concrete actions," he said. This could be achieved by a fresh approach to the relations between producer and consumer nations.

The minister added that amendments to the International Energy Agency statutues might have to be considered to enable it to play a constructive role in reconciling security of energy supply with protection of the environment. "This broader vision requires an institutional forum where the much needed initiatives can be developed and become a reality," he told delegates.

Cominco puts off smelter decision

By Bernard Simon in Toronto

COMINCO HAS again put off a decision on the future of its troubled lead smelter at Trail, British Columbia, to give the German engineering group Lurgi more time to correct flaws in the plant.

At the same time, the Vancouver-based base metals producer disclosed that should it abandon Lurgi's QSL technology, the most likely alternative is the Kivcet process used by smelters in Italy and Kazakhstan.

Earlier this year, Cominco retained Snamprogetti of Italy to prepare engineering and cost estimates for converting the facility to the Kivcet process. Cominco said it is now considering commercial-scale tests at the Kazakhstan smelter. It expects to decide either late this year or in early 1993 whether to persevere with the QSL system or convert the Trail smelter to the Kivcet process.

The C$135m (£60m) Trail plant, designed to produce 160,000 lb of lead a year, was shut down less than three months after being commissioned in December 1990. The main problem has been in the reduction chamber of the 40-metre long reactor, where natural gas has replaced pulverised coal as the reducing agent.

Lead operations have continued using the old, high-cost smelter that the QSL facility was designed to replace. Production totalled just over 87,000 tonnes last year.

Lurgi remains confident that the QSL process, with some modifications, is suitable for Trail. Cominco says however, that it remains concerned about "the rate at which the plant would have to be driven to achieve the production required by Trail".

The Canadian company has set up a committee of independent directors to consider the legal ramifications if the QSL smelter cannot be started satisfactorily.

WORLD COMMODITIES PRICES

MARKET REPORT

Base metals ended a generally active LME session mixed, with **NICKEL** below earlier four-month highs. Dealers said three-month nickel's early advance to a peak of $7,700 a tonne was largely made on speculative buying once a move through $7,600 triggered buy-stops. **COPPER** closed at its highs, aided by news that a strike could start at Poland's KGHM combine on July 20. This helped the market to shrug off overnight news that Asarco had settled with its unions. Comex copper contracts were setting successive lifetime highs following the cut in US interest rates. This sparked speculation that the US economy might soon recover. London's robusta **COFFEE** futures gained up to $28 on fund buying, while **COCOA** made small losses as the recent rally ran out of steam. "Coffee has potential for more upside, but don't expect it to go anywhere in a hurry," one trader said. "Then again, I suppose $20-odd is almost a rally in London." New York raw **SUGAR** futures were firm at midday as short covering ahead of the US Independence Day holiday continued to underpin prices. Traders cited sentiment that the price drop of the last two sessions might have been overdone.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$18.60-8.70	+.125
Brent Blend (dated)	$20.50-0.60	+0.20
Brent Blend (Aug)	$20.70-0.75	+.175
W.T.I (1 pm est)	$21.95-1.05z	+.225
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$229-231	
Gas Oil	$188-189	+2
Heavy Fuel Oil	$84-86	+0.5
Naphtha	$202-203	+1.5
Petroleum Argus Estimates.		
Other		+ or -
Gold (per troy oz)♣	$346.25	-2.10
Silver (per troy oz)♣	406.0c	+2.0
Platinum (per troy oz)	$387.90	+3.9
Palladium (per troy oz)	$83.25	+1.0
Copper (US Producer)	113.65c	
Lead (US Producer)	37.38c	
Tin (Kuala Lumpur market)	17.81r	
Tin (New York)	308.50c	-3.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	108.83p	-2.36*
Sheep (live weight)†♣	74.00p	-4.25*
Pigs (live weight)†	86.32p	-4.45*
London daily sugar (raw)	$250.0w	-11.0
London daily sugar (white)	$260.0w	-4.0
Tate and Lyle export price	£239.5	+5.0
Barley (English feed)	109.75	
Maize (US No. 3 yellow)	£149.0y	
Wheat (US Dark Northern)	Unq	
Rubber (Aug)♥	49.75p	-0.25
Rubber (Sep)♥	49.75p	-0.25
Rubber (KL RSS No 1 Jul)	221.0r	
Coconut oil (Philippines)§	$572.5z	
Palm Oil (Malaysian)§	$387.5z	+2.5
Copra (Philippines)§	$370.0y	+2.5
Soyabeans (US)	£140.5	+1.0
Cotton "A" index	65.50c	-0.36
Wooltops (64s Super)	377p	[illegible]

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. t-Aug/Sep y-July w-Jul/Aug z-Aug †Meat Commission average fatstock prices * change from a week ago ♥London physical §CIF Rotterdam ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices.‡‡ previous figure should have been 250.5

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Jul	563	565	557	551
Sep	575	580	585	567
Dec	604	607	612	597
Mar	633	633	636	624
May	650	650	657	644
Jul	668	668	667	660
Sep	684	684	685	681
Dec	711	707	714	710

Turnover: 4977 (12009) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jul 1 744.65 (725.28) 10 day average for Jul 2 693.98 (687.36)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low	
Jul	703	681	712	690
Sep	722	698	725	704
Nov	744	717	765	723
Jan	752	736	754	743
Mar	771		765	753
May	786	770	780	

Turnover: 3249 (2216) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jul 1: Comp. daily 46.98 (46.28) 15 day average 47.81 (47.69)

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Aug	223.00	222.00	226.00	221.00
Oct	209.60	209.00	211.60	208.40
Dec	196.00	196.00	191.00	186.00
Mar	201.80	201.00	201.40	200.20
White	**Close**	**Previous**	**High/Low**	
Aug	286.60	286.00	286.00	285.00
Oct	263.50	264.50	266.50	263.00
Dec	263.90	265.00	266.30	263.60
Mar	266.50	268.50	269.30	266.50
May	270.40	271.50	272.00	270.50
Aug	275.40	276.50	277.00	270.70
Oct	266.20	267.00	267.50	

Turnover: Raw 630 (113) lots of 50 tonnes. White 1655 (2304)
Paris- White (FFr per tonne): Aug 1475.00 Oct 1386.58

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low	
Aug	20.66	20.60	20.75	20.60
Sep	20.62	20.55	20.72	20.57
Oct	20.60	20.50	20.64	20.53
IPE Index	20.56	20.78		

Turnover 16000 (30090)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Jul	188.75	188.75	188.75	187.25
Aug	189.75	188.25	190.25	188.50
Sep	191.50	190.00	192.00	190.00
Oct	194.25	192.50	194.25	193.00
Nov	195.50	193.75	195.75	194.50
Dec	196.50	194.75	196.75	195.50
Jan	194.50		194.50	
Feb	190.00		190.00	

Turnover 11712 (14856) lots of 100 tonnes

FRUIT & VEGETABLES
Bananas 55-60p a lb (50-70p), New Zealand Kiwifruit 16-20p each (16-22p), spanis French and Italian peaches 20-30p each (15-20p) English cherries £1.50-1.80 a lb (£1.40-1.50) and carmel perlet grapes £1.80-2.00 a lb (£1.80-2.20). English potatoes 10-15p a lb (10-15p). English and French carrots 20-30p a lb (25-35p) and English peas 45-55p a lb (35-55p). English and Dutch peppers (all colours) £1.00-1.20 a lb, English and Dutch cucmbers 35-55p each (55-65p) English iceberg lettuce 55-65p each (65-70p) and English and Dutch tomatoes 45-55p a lb (45-55p). (Note last week's prices shown in brackets.

POTATOES – London FOX £/tonne

	Close	Previous	High/Low	
Apr	85.5	84.2	85.0	84.0

Turnover 41 (98) lots of 20 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Aug	120.00	121.00	

Turnover 0 (0) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low	
Jul	1031	1005	1010	1000
Aug	1030	1025	1021	1019
Oct	1190	1170	1180	1171
Jan	1215	1205	1215	
BFI	1082	1079		

Turnover 77 (398)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low	
Nov	114.85	114.50	114.85	114.35
Jan	118.20	118.20	118.00	
Mar	120.70	120.60	120.70	120.50
May	124.00		124.00	123.50
Barley	**Close**	**Previous**	**High/Low**	
Sep	109.65	109.50	109.65	109.40
Nov	113.00	112.80	113.00	112.65
Jan	115.70	115.60	115.80	115.70
Mar	117.75		117.75	

Turnover: Wheat 116 (195), Barley 81 (25).
Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jul	110.5		

Turnover 0 (0) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 34,517 lots	
Cash	1309-10	1307.5-8.5	-	1309-10		
3 months	1334-5	1330-3.5	1340/1325	1335-5.5	1339.5-40.5	162,890
Copper, Grade A (£ per tonne)					Total daily turnover 25,892 lots	
Cash	1270.5-1.5	1270.5-1.5	1275	1275-6		
3 months	1279.5-80.0	1283.5-4.0	1288/1277	1284-5	1281.5-2.5	120,916
Lead (£ per tonne)					Total daily turnover 2,926 lots	
Cash	322-3	316-7	323.75	323.5-3.75		
3 months	332.5-3.0	327-8	335/320	334-5	333-4	21,736
Nickel ($ per tonne)					Total daily turnover 8,299 lots	
Cash	7540-60	7470-80		7685-90		
3 months	7615-20	7545-50	7700/7570	7657-8	7625-30	22,933
Tin ($ per tonne)					Total daily turnover 2,652 lots	
Cash	7020-10	7085-95		7025-30		
3 months	7025-30	7020-95	7130/7028	7035-40	7080-90	10,614
Zinc, Special High Grade ($ per tonne)					Total daily turnover 6,093 lots	
Cash	1308-9	1320-2		1312-3		
3 months	1280-1	1291-2	1267-1273	1282-3	1283-4	54,335

LME Closing £/$ rate:
SPOT: 1.9175 3 months: 1.8891 6 months: 1.8590 9 months: 1.8362

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	346.10-346.40	
Opening	344.50-344.80	
Morning fix	344.85	180.634
Afternoon fix	342.10	180.640
Day's High	348.20-348.60	
Day's low	344.40-344.70	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.36	6 months	3.33
2 months	3.35	12 months	3.41
3 months	3.33		

Silver fix	p/troy oz	US cts equiv
Spot	213.15	406.50
3 months	216.45	410.85
6 months	219.80	414.20
12 months	226.05	420.40

GOLD COINS

	$ price	£ equivalent
Krugerrand	346.00-349.00	178.00-181.00
Maple leaf	350.75-358.05	
New Sovereign	82.00-84.00	42.00-44.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1250	86	116	8	18
1300	27	54	45	46
1350	5	18	122	113
Copper (Grade A)	**Calls**		**Puts**	
2250	59	107	15	46
2300	40	67	[illegible]	[illegible]
2350	11	37	[illegible]	[illegible]
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
650	77	102	5	8
700	40	65	18	21
750	17	37	45	43
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
550	35	67	10	13
600	20	39	30	21
650	11	27	56	55
Brent Crude	**Aug**	**Sep**	**Aug**	**Sep**
2050	38		21	
2100	15	37	45	73
2150	4			

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jul	346.5	344.3	0	0
Aug	347.6	345.6	349.7	346.7
Sep	348.4	346.5	0	0
Oct	349.3	347.4	351.2	348.8
Dec	351.3	349.4	353.5	350.4
Feb	353.3	351.5	354.5	353.2
Apr	355.3	353.5	357.0	355.5
Jun	357.5	355.9	357.0	357.0
Aug	359.8	358.3	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jul	398.8	388.8	400.0	396.0
Oct	390.5	384.4	392.0	387.1
Jan	391.1	385.1	391.5	387.9
Apr	391.9	385.9	392.5	390.5

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jul	403.5	402.9	407.0	402.0
Aug	405.0	404.8	0	0
Sep	408.4	406.8	410.5	404.5
Dec	412.5	410.3	415.0	409.0
Jan	412.0	412.1	415.0	412.5
Mar	415.0	415.4	418.0	413.0
May	418.1	418.6	0	0
Jul	421.2	421.8	0	0
Sep	424.6	425.0	428.0	421.6
Dec	430.2	431.0	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	111.50	108.20	111.75	108.90
Aug	112.00	109.05	112.25	109.40
Sep	112.00	109.05	112.50	109.40
Oct	111.60	108.95	0	0
Nov	111.00	108.20	0	0
Dec	110.15	108.05	111.00	108.60
Jan	110.00	108.05	0	0
Feb	109.50	108.15	0	0
Mar	109.20	107.75	109.60	107.50
Apr	108.80	107.60	0	0
May	108.25	107.30	107.60	107.50

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Aug	21.89	21.88	22.02	21.82
Sep	21.93	21.76	21.91	21.73
Oct	21.82	21.70	21.85	21.62
Nov	21.75	21.64	21.77	21.65
Dec	21.67	21.57	21.68	21.56
Jan	21.52	21.50	21.54	21.22
Feb	21.46	21.33	21.45	21.33
Mar	21.32	21.20	0	0
Apr	20.99	20.98	0	0

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Aug	6095	6052	6110	5970
Sep	6180	6143	6210	6060
Oct	6280	6243	6300	6200
Nov	6330	6323	[illegible]	6290
Dec	6470	6414	6480	6360
Jan	6475	6429	6485	6400
Feb	[illegible]	6280	6280	6250
Mar	6140	6054	6140	6080
Apr	5950	5864	5950	5850
May	5700	5669	5690	5690

COCOA 10 tonnes; $/tonnes

	Close	Previous	High/Low	
Jul	912	914	915	907
Sep	959	943	960	947
Dec	1013	1011	1021	999
Mar	1057	1050	1059	1040
May	1083	1085	1090	1075
Jul	1112	1110	1100	1100
Sep	1141	1140	0	0
Dec	1180	1178	1180	1175
Mar	1216	1211	1215	1216
May	1244	1239	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Jul	58.50	57.25	59.00	57.50
Sep	60.00	59.40	60.40	60.60
Dec	62.75	62.10	62.90	62.00
Mar	65.30	64.75	65.55	64.90
May	68.65	68.00	68.65	68.00
Jul	71.75	71.45	72.05	71.75
Sep	74.25	73.85	0	0
Dec	77.25	76.60	78.75	78.75

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	9.30	9.30	9.45	9.25
Mar	9.20	9.18	9.25	9.18
May	9.18	9.15	9.25	9.14
Jul	9.08	9.18	9.22	9.20
Oct	9.06	9.08	9.20	9.02

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Jul	65.20	65.53	65.80	65.85
Oct	63.30	63.27	63.80	63.18
Dec	62.44	62.27	62.60	62.11
Mar	63.27	63.27	63.50	63.20
May	64.05	64.02	64.55	63.86
Jul	64.34	64.30	64.50	64.34
Oct	64.05	64.10	0	0
Dec	64.10	64.05	64.30	64.00

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jul	126.00	126.50	126.50	126.00
Sep	118.80	118.80	119.00	117.60
Nov	114.90	114.55	115.10	113.45
Jan	112.80	112.80	113.00	112.25
Mar	112.80	112.40	113.20	112.40
May	112.20	112.40	0	0
Jul	112.20	112.40	0	0
Sep	112.20	112.40	0	0
Nov	112.20	112.40	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Jul 2	Jul 1	mnth ago	yr ago
1646.6	1655.1	1595.3	1736.4

DOW JONES (Base: Dec. 31 1974 = 100)

	Jul 1	Jun 30	mnth ago	yr ago
Spot	118.74	119.03	117.77	121.81
Futures	119.87	120.39	118.00	123.82

Danes tighten controls on imported pigs

By Hilary Barnes in Copenhagen

DANISH PIG farmers have set up an extensive system of controls to prevent any contamination of their herds by imported pigs. The system is a reaction to the introduction from July 1 of free trade in live animals across borders between European Community countries.

The Danes are the biggest EC exporters of pigmeat to non-community countries, especially Japan and the US, which set stringent veterinary conditions. The US will not permit the import of any Danish pigmeat if it includes as much a single pig imported to Denmark from other EC countries, said Mr Bent Sloth, chairman of the Association of Danish Slaughterhouses.

The slaughterhouses' and pig farmers' organisations, in co-operation with the government and with the authorisation of the European Commission, have imposed a system by which all imported animals must be ear-marked and no pigs can be sent to slaughter from any herd containing an imported pig.

Chicago markets were closed yesterday for a pre-Independence Day holiday

Chicago

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Aug	72.425	72.025	72.450	71.775
Oct	72.475	72.225	72.500	71.850
Dec	70.850	70.825	70.850	70.[illegible]
Feb	70.050	70.050	70.200	69.850
Apr	71.475	71.425	71.575	71.325
Jun	69.025	69.060	69.050	68.850
Aug	67.875	68.000	68.000	67.850

LIVE HOGS 40,000 lb; cents/lbs.

	Close	Previous	High/Low	
Jul	46.725	46.925	46.900	46.550
Aug	44.050	44.075	44.125	43.725
Oct	39.100	39.750	39.725	39.000
Dec	40.675	41.375	41.125	40.650
Feb	42.200	42.600	42.650	42.000
Apr	41.200	41.200	42.000	41.800
Jun	47.000	46.950	47.000	47.000
Jul	44.900	44.775	44.500	44.600

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Jul	30.975	30.500	30.975	30.025
Aug	29.050	29.225	29.250	27.750
Feb	38.725	38.650	38.725	38.700
Mar	38.850	38.650	38.950	38.500
May	38.850	38.850	38.850	37.050
Jul	38.900	38.850	38.575	36.900

LONDON STOCK EXCHANGE

Renewed fall after Wall Street opens

By Terry Byland, UK Stock Market Editor

STORM CLOUDS over the US economy overshadowed the UK stock market yesterday, and a rally from bearish pressures in the new issue sector was abruptly reversed after Wall Street and the US dollar began to slide.

London responded well at first to the overnight strength of other world markets, and the Footsie 2,560 level was quickly recovered, albeit in thin trading. The shine was taken off share prices, however, when it was confirmed that the issuing price for MFI, the furniture retailer created by a management buyout from Asda, had been sharply reduced in view of conditions in the UK stock market.

The early gain of 12 points on the Footsie disappeared but the market was holding steady until mid-afternoon, when London heard the news from across the Atlantic. The Federal Reserve Board's decision to cut the discount rate by ½ percentage point to 3 per cent, in the face of the rise in US unemployment to 7.8 per cent of the workforce in May, was widely seen as an act of near desperation rather than of reliable economic stimulus. Traders said that London was particularly unsettled by the political implications for President Bush of the new signs of US economic weakness.

London's nervousness increased as Wall Street turned from a gain of 17 points to a fall of 25 points early in its new trading session.

Meanwhile, the fall in the US currency was swiftly feeding through to dollar-orientated stocks in London and the Footsie fell sharply. Downward pressure was emphasised by a setback in stock index futures. At the day's low, the FT-SE Index was down by 32.7 but a rally took the final reading to 2,476.1, a net loss of 17.8.

Account Dealing Dates		
First Dealings:		
Jun 15	Jun 29	Jul 13
Option Declarations:		
June 25	Jul 9	Jul 23
Last Dealings:		
Jun 26	Jul 10	Jul 24
Account Day:		
Jul 6	Jul 20	Aug 3

*New-time dealings may take place from 8.30 am two business days earlier.

The fall to below 2,500 has left the FT-SE Index suspended nervously in thin air, with no visible support above the 2,436 area recorded on the eve of the UK general election in April; on the day after polling, the Footsie jumped by 132 points.

However, market turnover was light again with Seaq volume at only 394.5m shares. On Wednesday, when equities suffered badly, Seaq volume reached 495.1m shares, but Stock Exchange statistics show that retail or customer business in equities was worth only £982.7m, not an exciting total even by recent standards.

The reduction in the planned issue of MFI from an expected worth of £750m to only £669m was seen as a further indication of the problems of the new issue sector, and of the UK stock market as a whole.

Fund managers are currently apprehensively regarding the short-term outlook and will only put new cash into equities at discounts to market levels. The £3bn offer for sale by Wellcome closes at the end of this month and there have also been hints of impending rights issues from other leading companies.

Most of yesterday's losses came in the US-orientated stocks. ICI sharply extended an early fall and BOC, Reckitt & Colman, BAT Industries and Reuters all suffered for their Wall Street associations. However, shares in BP continued to steady, against the market trend, as investors tried to assess the dividend prospects.

FINANCIAL TIMES STOCK INDICES

	July 2	July 1	June 30	June 29	June 26	Year Ago	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs	89.40	89.15	88.91	88.84	88.91	84.26	89.62 (29/5)	85.11 (1/4)	127.40 (9/1/35)	49.18 (3/1/75)
Fixed Interest	105.77	105.33	104.93	104.76	104.57	93.16	105.92 (2/6)	97.15 (2/1)	105.92 (2/6/92)	50.53 (3/1/75)
Ordinary Share●	1901.1	1917.3	1942.3	1944.7	1963.9	1894.9	2149.7 (22/5)	1851.4 (3/4)	2149.7 (22/5/92)	49.4 (26/6/40)
Gold Mines	88.6	89.3	92.1	94.4	94.7	209.8	160.6 (10/1)	88.2 (1/7)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2476.1	2493.9	2521.2	2515.8	2534.1	2448.2	2737.8 (11/5)	2382.7 (3/4)	2737.8 (11/5/92)	986.9 (23/7/84)
FT-SE Eurotrack 200	1160.30	1161.24	1169.77	1173.91	1179.25	1133.99	1248.79 (11/5)	1120.52 (8/1)	1248.79 (11/5/92)	938.52 (16/1/91)
●Ord. Div. Yield	4.83	4.79	4.72	4.72	4.69	4.98				
●Earning Yld %(full)	7.07	7.01	6.92	6.92	6.87	8.76				
●P/E Ratio(Net)(☆)	17.74	17.90	18.12	18.14	18.27	14.05				
SEAQ Bargns 5.00pm	20,020	20,570	20,844	19,626	25,510	21,736				
Equity Turnover(£m)†	-	982.7	839.9	703.8	1290.8	1043.1				
Equity Bargains†	-	22,530	23,044	21,880	31,544	20,710				
Shares Traded (ml)†	-	412.9	378.5	329.1	565.1	433.3				

Basis 100 Govt Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90. ☆ Nil 15.46.

Ordinary Share Index, Hourly changes. Day's High 1924.9. Day's Low 1895.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1923.5	1919.9	1921.8	1915.8	1918.8	1920.2	1921.4	1917.6	1896.9

FT-SE 100, Hourly changes. Day's High 2505.9. Day's Low 2471.2

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2504.0	2500.4	2502.8	2493.4	2498.6	2499.3	2502.7	2495.0	2472.9

FT-SE Eurotrack 200, Hourly changes. Day's High 1173.41. Day's Low 1160.30

Open	10.30 am	11 am	12 pm	1 pm	2 pm	3 pm
1165.52	1167.36	1165.42	1165.18	1166.90	1166.10	1166.46

GILT EDGED ACTIVITY

Indices*	July 1	June 30
Gilt Edged Bargains	96.9	88.5
5-Day average	90.8	92.2

*SE Activity 1974. †Excluding intra-market business and Overseas turnover.

London report and latest Share index: Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p/minute at all other times.

Generator stocks wanted

POWERGEN and National Power were the best performers in an otherwise demoralised Footsie index, with the former given a strong boost by US-sourced buying interest.

Senior executives from PowerGen are currently visiting US investment institutions and analysts in New York. Hints relayed from these presentations suggest that, when the current deal between the power generators and British Coal ends in 1993, the UK generator companies will be allowed to sharply reduce their coal purchases.

PowerGen climbed 9 to 261p on heavy turnover of 7.1m shares, while National Power added 7 at 249p on 2.7m. Goldman Sachs, the US investment bank, was believed to have been a heavy buyer of the generators, especially PowerGen.

Offer worries

The regional electricity stocks reversed Wednesday's gains yesterday amid suggestions that the Office of Electricity Regulation (Offer) is about to turn its attention to the pricing policies of the National Grid Company (Gridco). This is owned by the 12 regional electricity companies, who derive 10 per cent of their profits from their holdings.

Stock market hints yesterday were that Offer may be about to restrict Gridco's future price rises to inflation minus 5 points and to threaten that, if Gridco resists, it will be referred to the Monopolies and Mergers Commission.

The worst performer in the sector was Eastern, which dropped 18 to 275p, while falls of 17 were registered by Northern, 341p, Norweb, 351p, and Seeboard, 330p. The Electricity Package lost 145 to £3245.

Glaxo struggles

News of a joint agreement with a Japanese company and a recommendation from a US brokerage house were not enough to shield Glaxo from the general setback in Wall Street-influenced stocks yesterday.

Glaxo said it had agreed with Yamanouchi Pharmaceutical to jointly develop a treatment against osteoporosis, a condition which affects the bones, mostly of women aged over 55.

Also, Merrill Lynch, in recommending the stock, said investors buying at the current weak level could expect a 15 per cent gain in the share price.

Glaxo shares were marked up at the opening and reached 670p. However, the surprise early downturn by the Wall Street market sent the stock sharply into reverse to end a net 6 off at 653p after 5.1m shares traded.

ICI still weak

There was no respite for ICI, which fell a further 18 to 1170p, making a slide of 50 since the start of the week. The latest data on one of the chemical giants' high-earning drugs added further impetus to a sharp profits forecast cut by one securities house earlier this week.

May prescription figures in the US for Tenormin, ICI's beta blocker for treating hypertension, were down by 42 per cent compared with the same period last year. The drug earned the company £1.18bn world-wide last year and $400m (£216.2m) in the US. However, the US patent ran out at the start of this year and sales have declined much faster than previously expected.

ICI's tumble has prompted the market to indulge in what one analyst described as "indiscriminate bashing" of the rest of the sector. BOC weakened 11 to 631p and Yorkshire Chemicals declined 12 to 320p.

BT was one of the handful of Footsie stocks to close higher on the day, responding to its inclusion in County NatWest's prestigious County 30 list of best buys.

The "old" shares settled 1½ up at 334½p and the partly-paid 2½ firmer at 234p. County highlighted BT as a resilient, highly-rated stock with good dividend prospects. "BT looks cheap as well as safe," said County.

British Gas overtook British Petroleum as the most heavily traded stock in the oil and gas sector. The former made strong progress early in the session and touched 254p, boosted by its joint deal with Italy's Agip to develop the Karachaganak oil and gas field in Kazakhstan.

But a growing realisation that the development of the field would involve Gas in a capital expenditure programme in the region of $3bn took the shine off the share price, which ran back to close only a fraction ahead at 250p. Turnover in Gas topped 18m shares.

In addition, Energy specialists said that if Offer adopted a stringent regime on Gridco, then it would strengthen the hand of Ofgas, the gas watchdog, to impose a low rate of return on Gas's pipeline system, in the event of a break-up of Gas's various interests.

A volatile session in British Aerospace saw the shares move sharply ahead by 12 to 281p in early trading, on press reports that the company was discussing a regional aircraft joint venture with Taiwan.

The positive sentiment, however, received a sharp knock after a widely predicted sell note from UBS Phillips & Drew finally landed on investors' desks. The stock came back to end just a penny up on balance at 249p after volume of 1.4m shares.

T & N firmed 6 to 142p after a US court dismissed a substantial asbestos claim against the company. Shares in TI Group, which last night held a presentation for investors at Kleinwort Benson, were in demand, adding 8 at 345p. US buying helped British Steel buck the market trend and firm 3 to 62½p in trade of 8.6m.

Two big lines of stock in Owners Abroad left the holiday group's shares looking queasy, 1.9m being traded at 67p and 1.25m at 66¾p. The stock retreated 5 to 69p. Rival Airtours tumbled 27 to 227p.

The effect of a buy recommendation from Crédit Lyonnais Laing earlier this week helped paper and packaging group Arjo Wiggins Appleton to firm 2 to 228p.

Brewery and hotel group Bass wilted in the face of a broker's downgrade and renewed worries about the performance of its Holiday Inns chain in the US. Strauss Turnbull snipped its profits forecast for this year by £20m to between £545m and £550m.

Analysts returned this week from a US presentation where Bass said it did not expect an "acceptable return" from Holiday Inns until 1995-96. Bass shares ended 10 off at 546p.

Elsewhere in the drinks sector, Scottish & Newcastle firmed 6 to 454p ahead of results due on Monday, but Guinness tumbled 11 to 534p after BZW followed County NatWest in downgrading the group.

MARKET REPORTERS: Steve Thompson, Joel Kibazo, Christopher Price.

■ Other market statistics, Page 21

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	10	450	+10
ASDA Group	10,000	39	
Abbey National	1,100	276	-1
Albert Fisher	908	67	
Allied-Lyons	562	626	-2
Amstrad	[illegible]	[illegible]	+1
Anglian Water	842	413	-7
Argos	801	292	-7
Argyll Group	960	357	+4
Arjo Wiggins	1,600	228	+2
Ass. Brit. Foods	330	428	+1
Comm. Union	396	468	-6
Cookson	998	142	
Courtaulds	733	602	-6
Dalgety	321	418	+2
De La Rue	330	554	-3
Dixons	579	223	-6
Eastern Elect.	2,400	275	-18
East Midland Elec.	281	302	-18
Eng China Clays	3,200	518	-4
Enterprise Oil	237	392	+2
Eurotunnel Units	291	390	-5
Lucas	1,300	114	-3
MB Caradon	572	242	-5
MEPC	856	380	-6
Manweb	1,300	362	-14
Marks & Spencer	2,800	331	-6
Midland Bank	955	497	-1
Midlands Elect.	2,000	329	-8
NFC	588	232	-2
NatWest Bank	1,800	317	-11
National Power	2,700	249	+7
Next	5,000	89½	+3½
Shell Transport	1,800	495	-3½
Siebe	735	585	-14
Slough Ests	357	185	+1
Smith (W.H.) A	250	432	-4
Smith & Nephew	300	143½	-½
SmKl Beecham	784	877	-6
SmKl Beecham Uts	29	4005	-25
Smiths Inds.	602	298	+6
Southern Elect.	1,000	300	-16
South Wales Elect.	750	353	-14
South West Water	707	415	-7
Brit. Aerospace	1,400	280	+1
British Airways	2,900	260½	-1
British Gas	18,000	250	+1
British Land	915	189	-6
BP	12,000	211	+2
British Steel	8,600	62½	+3
Bunzl	3,500	101	+1
Burmah Castrol	285	680	-3
Burton	1,900	46	+1½
Cable & Wire.	1,600	510	-4
Cadbury Schweppes	1,400	458	-4
Calor Group	618	178	-2
Carlton Comms.	381	608	-2
Coats Viyella	3,000	186	-6
IMI	922	246	-1
ICI	827	1170	-18
Inchcape	1,600	432	-12
Kingfisher	1,700	475	-10
Kwik Save	97	499	+2
Ladbroke	2,500	202	-4
Land Securities	309	397½	-3½
Laporte	33	585	-3
Legal & General	582	375	
Lloyds Abbey	314	285	+3
Lloyds Bank	1,400	427	+3
LASMO	1,900	168	-1
London Elect.	2,000	326	-11
Lonrho	885	75	-2
Reuters	661	1141	-13
Rolls Royce	2,400	147	-1
Rothmans	391	1113	-30
Ryl Bk Scotland	1,500	181	-6
Royal Insurance	1,300	211	-11
Saatchi	613	132	-14
Sainsbury	2,400	459	-7
Scottish & New	594	454	+6
Scot. Hydro-Elect.	3,100	159½	+1½
Scottish Power	2,800	154	+1
Sears	4,900	79	-2
Sedgwick	42	180	+2
Seeboard	632	330	-17
Severn Trent Water	482	403	-6
United Biscuits	684	347	
Utd. Newspapers	747	402	-18
Vodafone	2,400	329	-5½
Warburg (SG)	36	500	-2
Wellcome	[illegible]	955	+2
Welsh Water	737	463	-1
Wessex Water	[illegible]	460	-9
Whitbread 'A'	1,400	424	-2
Williams Hldgs	1,400	282	-2½
Willis Corroon	1,100	215	
Wimpey	1,800	136	-1
Wolseley	4	341	
Yorkshire Elect.	320	384	-15
Yorkshire Water	206	471	-7

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

THE SHARP retreat of Wall Street yesterday afternoon led to a big sell-off in stock index futures in a session once again noted for its volatility, writes Joel Kibazo.

The September contract on the FT-SE opened firmly at 2,522 on the back of the good overnight performance in New York. However, independent traders who had taken on long overnight positions led the selling of September, sending the contract into retreat.

Bargain hunters curtailed further falls around lunchtime but the respite was short-lived; the release of worse than expected US employment data once again sent the contract falling.

The contact picked up ahead of Wall Street's opening but then reacted to the US selling which followed the Fed's discount rate cut. The falls on Wall Street put paid to any hopes of a further rise and the contract eventually closed at 2,489, down 29 from the previous session and around 10 points below its estimated fair value premium to cash of about 25. Turnover reached 8,493 lots.

The uncertainty in the markets saw turnover in traded options once again reach high levels. A total of 46,520 contracts were traded, with the FT-SE option having 18,164 lots dealt. Marks and Spencer was the busiest stock option on 2,173 contracts.

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (98). BRITISH FUNDS (6) [illegible]. OTHER FIXED INTEREST (5) [illegible]. BANKS (1) [illegible]. BUILDING MATERIALS (1) [illegible]. CHEMICALS (2) [illegible]. ELECTRICALS (4) [illegible]. ELECTRONICS (5) [illegible]. ENGINEERING GENERAL (1) [illegible]. FOOD MANUFACTURING (2) [illegible]. HOTELS (1) [illegible]. INDUSTRIALS (6) [illegible]. INSURANCE (1) [illegible]. LEISURE (1) [illegible]. MEDIA (1) [illegible]. PAPER (1) [illegible]. PROPERTY (1) [illegible]. STORES (2) [illegible]. TEXTILES (1) [illegible]. TRUSTS (5) [illegible]. OIL & GAS (2) [illegible].

NEW LOWS (98). [illegible]

FT-ACTUARIES SHARE INDICES

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	EQUITY GROUPS & SUB-SECTIONS Figures in parentheses show number of stocks per section	Thursday July 2 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1992 to date	Wed Jul 1 Index No.	Tue Jun 30 Index No.	Mon Jun 29 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (177)	807.74	-0.4	7.13	5.55	18.20	16.81	810.73	819.96	823.97	799.20
2	Building Materials (22)	883.20	-0.5	6.34	6.35	21.20	25.24	887.35	897.50	909.25	1016.16
3	Contracting, Construction (28)	803.30	-0.8	4.33	7.44	50.68	24.60	809.58	829.73	837.51	1163.85
4	Electricals (9)	2435.46	......	7.14	6.20	18.17	68.82	2434.60	2457.11	2458.56	2292.71
5	Electronics (28)	1965.75	-0.1	8.01	4.39	15.82	9.16	1967.22	1952.50	1963.52	1700.12
6	Engineering-Aerospace (6)	334.20	+0.1	10.91	7.60	11.60	11.27	333.82	336.28	338.03	403.85
7	Engineering-General (43)	498.65	-0.1	8.14	4.80	15.22	9.46	499.11	507.34	511.14	434.85
8	Metals and Metal Forming (8)	312.97	+2.0	0.80	7.05	-	3.60	306.89	309.94	310.11	432.58
9	Motors (14)	332.92	-0.6	7.97	7.06	16.50	10.04	334.97	342.71	343.47	302.35
10	Other Industrial Materials (19)	1723.96	-0.9	7.20	4.80	16.74	34.69	1739.03	1773.63	1773.18	1504.05
21	CONSUMER GROUP (189)	1581.62	-0.9	7.68	3.63	15.99	23.94	1595.66	1618.78	1614.80	1448.87
22	Brewers and Distillers (24)	2030.70	-1.2	8.16	3.65	14.79	29.35	2054.93	2075.66	2064.80	1764.63
25	Food Manufacturing (19)	1234.09	-0.6	8.75	4.28	14.14	23.82	1241.72	1253.87	1249.74	1178.21
26	Food Retailing (18)	2858.99	-0.6	8.48	3.19	15.43	44.70	2875.33	2917.55	2904.57	2636.05
27	Health and Household (24)	3680.94	-0.6	7.49	2.88	15.21	37.81	3702.81	3772.06	3737.60	3536.05
29	Hotels and Leisure (19)	1225.76	-1.3	8.48	5.58	20.10	23.55	1241.35	1263.99	1276.26	1201.33
30	Media (26)	1519.24	-0.9	6.36	3.45	19.45	25.88	1533.01	1562.17	1546.60	1354.34
31	Packaging, Paper & Printing (17)	763.70	......	6.73	4.33	18.01	14.67	764.06	773.63	774.35	689.48
34	Stores (33)	1019.86	-1.4	7.42	3.63	17.79	16.22	1034.07	1050.99	1059.22	885.98
35	Textiles (9)	660.70	-1.6	7.04	4.70	17.96	14.72	671.13	684.68	689.74	533.75
40	OTHER GROUPS (117)	1237.54	-0.7	10.09	5.30	12.37	22.32	1246.67	1257.63	1258.24	1206.52
41	Business Services (17)	1345.66	-1.8	6.42	3.71	19.02	20.78	1370.24	1403.17	1400.02	1242.57
42	Chemicals (22)	1404.72	-1.3	7.52	5.17	16.29	32.18	1423.51	1444.29	1459.24	1388.20
43	Conglomerates (11)	1242.40	+0.4	10.39	7.58	12.02	23.62	1237.21	1237.94	1250.77	1396.74
44	Transport (14)	2440.87	-1.0	8.46	4.80	14.51	51.61	2466.16	2522.74	2538.59	2158.06
45	Electricity (16)	1351.57	-0.8	14.14	5.28	8.96	17.21	1362.99	1348.32	1336.77	1174.98
46	Telephone Networks (4)	1356.55	......	11.48	4.87	11.36	21.77	1356.74	1372.09	1366.30	1425.92
47	Water (11)	2846.16	-0.8	15.59	6.08	7.10	86.85	2869.74	2855.59	2832.52	2261.32
48	Miscellaneous (22)	1969.52	-1.4	5.80	5.00	23.05	24.35	1998.34	2027.82	2030.18	1956.52
49	INDUSTRIAL GROUP (483)	1280.10	-0.7	8.34	4.52	14.94	21.88	1289.72	1305.33	1305.09	1213.53
51	Oil & Gas (17)	1959.79	......	7.73	7.26	17.00	63.73	1958.60	1952.87	1937.82	2383.94
59	500 SHARE INDEX (500)	1345.29	-0.7	8.28	4.79	15.12	25.11	1354.22	1368.56	1367.30	1312.53
61	FINANCIAL GROUP (85)	722.66	-1.0	-	6.28	-	20.03	729.99	737.68	738.41	777.00
62	Banks (9)	937.05	-0.9	5.14	5.83	20.77	24.58	945.68	952.77	948.78	876.74
65	Insurance (Life) (6)	1486.84	-0.8	-	5.99	-	44.26	1498.15	1502.60	1509.88	1458.09
66	Insurance (Composite) (7)	491.93	-2.4	-	7.07	-	13.46	504.23	520.73	526.26	659.52
67	Insurance (Brokers) (10)	818.21	+0.2	9.48	7.94	13.00	29.69	816.78	816.88	825.70	1125.81
68	Merchant Banks (7)	469.06	-0.2	-	4.60	-	11.25	469.94	477.74	479.18	419.11
69	Property (31)	627.12	-1.0	9.27	7.31	14.57	19.27	633.34	638.38	639.61	888.66
70	Other Financial (15)	246.33	-0.1	7.36	7.11	18.39	6.63	246.49	247.44	247.45	257.13
71	Investment Trusts (70)	1142.37	+0.4	-	3.92	-	18.86	1138.23	1143.61	1142.55	1182.70
99	ALL-SHARE INDEX (655)	1195.93	-0.7	-	4.95	-	23.55	1204.05	1216.62	1215.77	1183.05

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 1	Jun 30	Jun 29	Jun 26	Jun 25	Year ago
FT-SE 100 SHARE INDEX♦	2476.1	-17.8	2505.9	2471.2	2493.9	2521.2	2515.8	2534.1	2557.3	2407.4

FIXED INTEREST

	PRICE INDICES	Thu Jul 2	Day's change %	Wed Jul 1	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (24)	122.57	+0.12	122.43	1.88	6.48
2	5-15 years (24)	139.49	+0.37	138.97	2.41	6.89
3	Over 15 years (11)	150.70	+0.54	149.88	0.89	6.80
4	Irredeemables (6)	167.86	+0.65	166.78	1.29	7.34
5	All stocks (65)	136.68	+0.32	136.24	2.03	6.86
	Index-Linked					
6	Up to 5 years (2)	173.76	+0.04	173.69	0.96	1.83
7	Over 5 years (10)	153.53	+0.30	153.08	0.60	2.40
8	All stocks (12)	155.13	+0.26	154.73	0.81	2.31
9	Debs & Loans (63)	121.82	+0.26	121.50	2.15	6.16

	AVERAGE GROSS REDEMPTION YIELDS		Thu Jul 2	Wed Jul 1	Year ago (approx.)
	British Government				
1	Low	5 years	8.15	8.17	9.03
2	Coupons	15 years	8.74	8.80	9.93
3	(0%-7¾%)	20 years	8.74	8.80	9.93
4	Medium	5 years	9.11	9.13	10.35
5	Coupons	15 years	8.92	8.98	10.16
6	(8%-10¾%)	20 years	8.89	8.95	10.08
7	High	5 years	9.13	9.15	10.30
8	Coupons	15 years	9.08	9.15	10.19
9	(11%-)	20 years	9.01	9.08	10.13
10	Irredeemables		9.05	9.11	10.13
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs	4.00	4.01	4.45
12	Inflation rate 5%	Over 5 yrs	4.32	4.34	4.34
13	Inflation rate 10%	Up to 5 yrs	3.28	3.26	3.54
14	Inflation rate 10%	Over 5 yrs	4.14	4.16	4.15
15	Debs &	5 years	10.43	10.47	11.98
16	Loans	15 years	10.21	10.24	11.79
17		25 years	10.10	10.13	11.59

♦Opening index 2504.0; 9 am 2500.4; 10 am 2502.8; 11 am 2493.4; Noon 2498.6; 1 pm 2499.3; 2 pm 2502.7; 2.30 pm 2494.1; 3 pm 2496.0; 3.30 pm 2483.6; 4 pm 2472.9. (a) Day's high: 12.49am (b) Day's low 4.15pm. † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 071-925 2323.

LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)							
Exch 12¼pc 1992		100⅛	—	101¼	100⅛	12.21	9.75
13½pc 1992		100⅞	—	102¼	100⅞	13.41	8.72
Treas 8¼pc 1993		99⅜	—	99⅜	97⅞	8.30	9.20
10pc 1993	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

BRITISH FUNDS - Cont.

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
Treas 10½pc 1999		107	+⅛	107⅜	101⅜	[illegible]	[illegible]
Conversion 10¼pc 1999		106⅛	+⅛	106⅛	100⅝	9.66	9.06
9pc 2000		100⅛	+⅛	100⅛	94⅛	8.98	8.94
9% 2000 C		38⅛	+⅛	40⅛	38⅛	9.84	8.94
Treas 13pc 2000		120⅞	+⅛	121¼	114⅞	10.79	9.31
10pc 2001		105½	+⅛	105¼	99⅞	9.48	9.05

[illegible]

BRITISH FUNDS - Cont.

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
Treas 3pc '66 Aft.		32⅛	+⅛	32⅛	29⅞	9.32	-
Consols 2½pc		27½	+⅛	27¼	24⅞	9.09	-
Treas. 2½pc		27⅛	+⅛	27⅛	24⅞	9.16	-
Index-Linked						(1)	(2)
Treas. 2pc '94 (102.9)		127½	+⅛	127½	122½	2.84	4.02

[illegible]

OTHER FIXED INTEREST

[illegible]

Prices are determined for every half-hour as the purpose of the electricity pooling and settlement arrangements in England and Wales.

[illegible]

N3C Settlements Limited

AMERICANS

Notes	Price £	+ or -	1992 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs ......h	15⅞xd	+⅛	18⅛	14⅝	13,499	2.1
♥Allegheny & W	287p	+19	339p	226p	149.1	5.9
Amdahl	950p	+24	1159p	793p	1,064	0.6
Amer Cyanamid	29⅝	+⅝	37	28⅝	2,708	3.1
Amer Express	12¼xd	+⅛	13⅞	10⅞	5,818	4.6
Amer T & T	22⅞xd	+⅛	24⅞	20⅛	30,423	3.2
Ameritech	33¼	+⅛	36⅞	32½	14,558	6.0
BankAmerica	23½xd	+⅛	27⅛	19⅞	8,060	1.1
Bankers NY	31⅝xd	+⅞	37⅛	28⅞	2,699	5.0
Bell Atlantic	23½	—	26¾	23⅛	10,116	6.2
BellSouth	26	—	29⅛	25	12,654	6.0
♥Bethlehem Steel	8xd	+⅛	9⅝	7	612.3	—
Bowater	1105pxd	+15	1579p	1075p	398.2	6.1
CPC ......h	23⅞xd	-⅛	25⅝	22⅞	3,625	2.8
♥Cadiz Land Inc	216p	—	342p	168p	—	—
California Engy	664p	—	833p	635p	128.9	—
Campbell Soup	18⅞xd	-⅛	23⅞	17⅞	4,760	2.3
Chase Manhattan	14⅞xd	+⅛	16½	9⅛	2,047	4.6
Chrysler	10⅞xd	-⅛	11½	6¼	3,194	3.1
Citicorp	11xd	-⅛	11¼	5⅞	3,858	—
Colgate-Palm	27½xd	+⅛	29⅞	25¼	4,378	2.2
Cont'l Bank	975p	+17	1036p	499p	985.3	3.5
Dana	22⅞xd	+⅛	24½	14⅞	1,038	3.9
Data General	419p	-14	1084p	383p	115.6	—
♥Decora Inds	105p	—	122p	66p	—	—
Dial	18⅝xd	—	24⅛	18⅝	747.7	3.4
Dun & Brad	29⅝	—	33½	27⅝	5,288	4.3
Eaton	41⅝	-⅜	46½	32½	1,418	3.0
Echlin	10⅛xd	+⅛	11	7⅞	583.4	3.9
FPL	18⅞xd	+⅛	20	18⅛	3,114	7.5
Fluor	20⅝xd	-⅛	27	20⅝	1,872	1.1
Ford Motor	23⅝	-⅛	28⅞	15	11,452	2.4
Gen Elect	41⅞xd	+⅛	46¼	40⅞	36,483	2.9
♥General Host	430p	+10	566p	360p	—	4.7
Gillette	24⅞xd	+⅛	29⅞	23⅞	5,489	1.6
Hasbro	15⅛	+⅛	16	12⅞	1,383	0.7
Honeywell	38⅛xd	-⅛	43	34⅛	2,522	2.6
Houston Inds	23	—	25	22⅞	2,978	7.3
IBM	51⅞xd	-⅛	54½	46⅞	29,336	5.3
Ingersoll-Rand ......h	14⅞xd	+⅛	19⅞	13⅞	1,529	2.5
Lockheed	23	—	26⅞	22⅛	1,443	5.2
Lowe's ......h	1047p	+23	1273p	875½p	884.3	1.5
Merrill Lynch	26⅞xd	+⅛	39⅞	24⅝	2,760	2.1
Morgan (JP)	29⅞	+⅛	37½	28⅞	5,888	4.1
Morris (Philip)	39⅞xd	+1⅛	45⅞	37⅞	36,679	3.0
NYNEX	41⅛	-⅛	44⅝	39⅝	8,409	6.3
For Pacific Agricultural see Cadiz land Inc						
Pall	14	+⅛	17⅞	10⅞	1,229	1.4
Pennzoil	23⅞xd	—	30⅛	23⅞	948.7	7.2
Quaker Oats	30½xd	+⅛	40⅞	28	2,279	3.2
Rockwell	12⅛	-⅛	15⅞	11⅞	2,701	4.3
Rep NY	21½xd	+⅛	28⅞	20⅞	1,119	2.6
Sears, Roebuck	20⅝xd	-⅛	28	19⅞	7,097	5.5
Sthwestern Bell	32½	+½	36⅞	31⅛	9,755	5.1
Sun Co	13½xd	+⅛	16⅞	13⅞	1,432	7.7
Tenneco	19xd	-⅛	25⅞	18½	2,304	4.8
Texaco	32⅞xd	+⅛	36⅝	30⅞	8,385	5.6
Time Warner	58xd	+⅛	62⅛	46½	5,458	1.0
♥Unitab	355p	—	587p	355p	329.8	—
Utd Tech	27⅞xd	-⅛	31⅛	26⅞	3,306	3.7
For Utitech see Decora Inds						
♦URS Intl 1c	0⅞p	—	1⅛p	0⅛p	2.38	—
US West	19⅛	+⅛	21⅞	18⅛	7,891	6.2
Varity	910p	-10	1000p	632p	228.6	—
Waste Manage	18xd	+⅛	25	17⅞	8,885	1.4
Whirlpool	1989pxd	+13	2789p	1874p	1,387	3.1
♥Woolworth	14⅛	+⅛	18⅛	14⅞	1,922	4.1

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING—AEROSPACE

ENGINEERING—GENERAL

ENGINEERING—GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

STORES - Cont.

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised [illegible].

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✤ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ◊ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
e Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.
v Subject to local tax.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1990-91
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1991
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1991-92.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

[illegible]

FT MANAGED FUNDS SERVICE

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Stewart Ivory Unit Tst Mgrs Ltd (1200)H

[illegible]

Local Authorities Mutual Invest. Tst.

[illegible]

M & G Securities Ltd

[illegible]

Morgan Grenfell Investment Funds Ltd

[illegible]

Morgan Stanley International

[illegible]

Murray Johnstone UT Mgmt

[illegible]

Phillips & Drew Fund Management Ltd

[illegible]

Stewart Ivory & Co Ltd

[illegible]

Thornton Unit Managers Ltd

[illegible]

INSURANCES

Abbey Life Assurance Co Ltd

[illegible]

Amev Life Assurance Ltd

[illegible]

AEGON Life Assurance Co (UK) Ltd

[illegible]

AEtna Life Insurance Co Ltd

[illegible]

Albany Life Assurance Co Ltd

[illegible]

Allied Dunbar Assurance Plc

[illegible]

Barclays Life Assur. Co Ltd

[illegible]

Black Horse Life Assurance

[illegible]

Britannia Life Ltd

[illegible]

Canada Life Group

[illegible]

Century Life Plc

[illegible]

Century Life Plc—Contd.

[illegible]

Citibank Life

[illegible]

City of Westminster Assurance

[illegible]

Clerical Medical/Fidelity Investments

[illegible]

Clerical Medical Investments Group

[illegible]

Colonial Mutual Group

[illegible]

Commercial Union Group

[illegible]

Cornhill Insurance PLC

[illegible]

Crown Financial Management Ltd

[illegible]

Eagle Star Life Assurance Co Ltd

[illegible]

Eagle Star Inter./Midland Assur.

[illegible]

Equitable Life Assurance Society

[illegible]

Family Assurance Society

[illegible]

Friends Provident

[illegible]

GT Unit Managers Ltd

[illegible]

General Portfolio Life Insur Plc

[illegible]

Assicurazioni GENERALI SpA

[illegible]

Graham Unit Assurance Ltd

[illegible]

Growth & Sec. Life Assce. Soc. Ltd

[illegible]

Guardian Royal Exchange

[illegible]

Hearts of Oak Benefit Society

[illegible]

Henderson Administration(z)

[illegible]

Hill Samuel Life Assur. Ltd

[illegible]

Homeowners Friendly Society

[illegible]

Ideal Insurance Co Ltd

[illegible]

Irish Life Assurance Co Plc

[illegible]

Lancashire & Yorkshire Assce Society

[illegible]

Laurentian Life plc

[illegible]

Legal & General

[illegible]

Liberty Life Assurance Co Ltd

[illegible]

Life Association of Scotland

[illegible]

Lifetime Assurance Co Ltd

[illegible]

London Indemnity & Gnl. Ins. Co Ltd

[illegible]

London Life

[illegible]

London & Manchester Assurance

[illegible]

M & G Life and M & G Pensions

[illegible]

MGM Assurance

[illegible]

Manufacturers Life

[illegible]

Merchant Investors Assurance Co Ltd

[illegible]

Mercury Life Assurance Co Ltd

[illegible]

Midland Life Limited

[illegible]

NEL Britannia Assce Co Ltd

[illegible]

NEL Britannia Assce Co Ltd—Contd.

[illegible]

NEL Pensions Ltd

[illegible]

NM Life Assurance Ltd

[illegible]

N & P Life Assurance Ltd

[illegible]

National Mutual Life

[illegible]

National Provident Institution

[illegible]

Norwich Union Asset Management Ltd

[illegible]

Norwich Union Life Insurance Soc.

[illegible]

Norwich Union Pensions Management Ltd

[illegible]

Continued on next page

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GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar dealt double blow

THE DOLLAR made a remarkable recovery in late European trading yesterday after being dealt the double blow of dismal employment data and a cut in the Federal Reserve discount rate, *Emma Tucker writes.*

The US currency fell two pfennigs to a 16 month low of DM1.4995 on the news that non-farm payrolls dropped 117,000 in June, confounding market expectations of a 90,000 rise.

But a combination of rumours that the Federal Reserve was intervening and the fear of going too short with the currency at such low levels rescued the dollar from further losses. It closed in London at DM1.5135 after Wednesday's close of DM1.5170.

Dealers said the dollar's steadiness indicated that the bad news had been, to a certain extent, anticipated.

The sharp drop in employment was spread broadly across the economy apart from a small rise in government employment, and followed a string of poor economic data last week.

Within an hour of the employment data being announced the Fed announced a cut in the discount rate to 3 per cent from 3.5 per cent, its lowest level since the summer of 1963.

Most of the big banks followed-up the Fed governors' unanimous decision to cut the discount rate by cutting their prime rates 0.5 per cent to 6 per cent. Some analysts said they now expected the dollar to head towards its all time low of $1.4460, which it hit in February 1991.

"The Fed will probably respond to further weakness with more rate cuts so the dollar is likely to go even lower - it could even go into free fall," said Mr Nicholas Stamenkovic, an economist at DKB International, the Japanese Bank.

However, others said they thought the dollar would find support at DM1.50.

"There's an incredibly strong feeling in the market that the dollar is fundamentally cheap at these levels, and people don't want to be too short when the inevitable rally comes," said Mr Gerald Holtham, chief international economist at Shearson Lehman.

With the dollar hogging most of the attention on the foreign exchanges, there was little scope for action on the EMS currencies. In the morning the Italian lira came under pressure as rumours of a devaluation swept the market. One trader said the lack of confidence overseas was increasing.

The currency was also affected by the weakness of the dollar and worries about the political and domestic outlook in Italy. Dealers said the Bank of Italy had intervened to temper downward pressure on the currency.

The pound had a good day although it remained at the bottom of the EMS grid. It edged above DM2.90 to close at DM2.9035.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jul 2	% Change from Central Rate	% Spread v Weakest Currency	Divergence Indicator
Portuguese Escudo	178.735	170.911	-4.38	6.00	72
Spanish Peseta	133.631	129.506	-3.09	4.59	82
Belgian Franc	42.4032	42.1549	-0.59	1.95	29
D-Mark	2.05586	2.04843	-0.36	1.75	26
Dutch Guilder	2.31643	2.30875	-0.33	1.69	17
French Franc	6.89509	6.89213	-0.04	1.40	3
Irish Punt	0.767417	0.767795	0.05	1.31	-2
Danish Krone	7.84195	7.88164	0.51	0.85	-43
Italian Lira	1538.24	1552.60	0.93	0.42	-45
Sterling	0.696904	0.706364	1.36	0.00	[illegible]

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

£ IN NEW YORK

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

*Floating rate. Iran Official rate £121.40 $64.00

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Pesetas per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS ... LIFFE US TREASURY BOND FUTURES OPTIONS ... LIFFE BUND FUTURES OPTIONS ... LIFFE EUROMARK OPTIONS ... LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS ... LIFFE SHORT STERLING OPTIONS ...

LONDON (LIFFE) ... CHICAGO ... PARIS ...

* Contracts traded on APT. Closing prices shown.

POUND - DOLLAR

MONEY MARKETS

Rates soften

PERIOD interbank rates eased marginally on the UK money markets yesterday after a ½ point cut in the US discount rate affected traders' sentiment.

"I think the Fed rate cut has brought home the pure frustration of the fact that UK rates are far too high for the UK economy at the moment," said one.

The key three-month interbank rate closed at 9⅞ per cent from a previous close of around 10⅛ per cent while six month money dropped to the same rate.

The easing was encouraged by a comment from Mr Horst Köhler, Germany's sherpa to the G7, that he was confident the government would create the conditions necessary for an early cut in German interest rates.

Mr Köhler said government budget measures, the July 1 expiration of the solidarity tax and a positive development in wage settlements had created the impulse needed for a slow-down in the rise of inflation.

Sterling futures contracts were traded actively. The September contract squeezed back up to levels last seen two and half weeks ago. It opened at 90.16, against Wednesday's close of 90.13, and rose 11 basis points to end at around 90.27 in heavy trading. This suggests the market is looking for another half point cut in base rates sometime over the next two and a half months. The December contract closed up 11 basis points to finish at around 90.49.

Money market operations with the Bank of England were relatively quiet. The shortage was eventually taken out, although traders were a little reluctant to part with too much paper, forcing the overnight rate to creep up to around 10¼ per cent.

The Bank's initial forecast liquidity shortage was £950m but this was revised to £1bn in the early afternoon. The Bank operated once in the morning buying bills totalling £42m. Later it purchased £275m of bills and provided late assistance of around £350m.

● The Federal Reserve added temporary reserves to the banking system with four-day system repurchase agreements. Economists said the action signalled a 50 basis point reduction in the federal funds rate target to 3¼ per cent following the half-point discount rate cut earlier.

UK clearing bank base lending rate 10 per cent from May 5, 1992

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BASE LENDING RATES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.7,889 Set by VIXEN

ACROSS

1 Unsociable and awkward royalist (8)
5 Sets forth conditions (6)
9 People correspond without writing anything down (8)
10 Near to collapse? Fancy that! (6)
12 A clue can be amusing (5)
13 Left over in a bar (9)
14 Virginia is incapable of being thoughtless (6)
16 One member of the family walks on (7)
19 Prepared to imbibe 1 down, a non-alcoholic drink (7)
21 Beaks' arts or reflections (6)
23 A Pole sent off to obtain certain animals (9)
25 Some women getting escorted out colour (5)
26 Lets in rebels, keeping quiet (6)
27 The instructor is obscure about the craft (8)
28 A youngster found guilty of pinching? (6)
29 He's in firm control (8)

DOWN

1 A plant that's not difficult to grow? (6)
2 Come down on unsmiling foreign prince (9)
3 Feature a pretty little bird – the artist's into that (5)
4 Laughing about the continental being so trusting (7)
6 Residents reformed as a result of hard work (9)
7 Drill and file (5)
8 Heartless fool terminating disbursement (8)
11 Pollutes the planet (4)
15 One may travel in such a vehicle in need of attention (9)
17 The most unconventional roam in the streets (9)
18 Criminal making dope doubly popular (8)
20 Order a model (4)
21 The music man turning in is almost angry (7)
22 Resent appearing less relaxed (6)
24 To set up about fifty-one would be a bloomer (5)
25 In parliament it helps to raise a special tax (5)

Solution to Puzzle No.7,888

WORLD STOCK MARKETS

CANADA

TORONTO

3:00 pm prices July 2

MONTREAL

3:00 pm prices July 2

INDICES

NEW YORK

DOW JONES	Jul 1	Jun 30	Jun 29	Jun 26	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	3354.10	3318.52	3319.86	3282.41	3413.21 (1/6)	3172.41 (2/1)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	99.93	100.01	100.08	100.07	100.17 (19/5)	98.41 (20/3)	100.17 (19/5/92)	54.99 (1/10/81)
Transport	1341.37	1315.77	1316.52	1277.65	1467.68 (20/2)	1277.65 (26/6)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	212.44	211.13	210.38	209.69	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 3366.40 (3347.60) Low 3305.41 (3294.98)

STANDARD AND POOR'S

	Jul 1	Jun 30	Jun 29	Jun 26	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	412.88	408.14	408.94	403.45	420.77 (15/1)	394.50 (8/4)	420.77 (15/1/92)	4.40 (1/6/32)
Industrials	485.99	480.31	481.72	474.86	499.27 (15/1)	470.91 (8/4)	499.27 (15/1/92)	3.62 (21/6/32)
Financial	36.15	35.70	35.58	35.15	36.15 (1/7)	32.40 (8/4)	36.15 (1/7/92)	8.64 (1/10/74)
NYSE Composite	226.75	224.35	224.44	221.60	231.85 (15/1)	217.92 (8/4)	231.85 (15/1/92)	4.46 (25/4/42)
Amex Mkt. Value	381.01	379.28	377.10	374.04	418.99 (12/2)	374.04 (26/6)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	568.99	563.69	558.80	547.84	644.92 (12/2)	547.84 (26/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Jun 26	Jun 19	Jun 12	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.14	3.09	3.16

	Jun 24	Jun 17	Jun 10	year ago (approx.)
S & P Industrial div. yield	2.72	2.72	2.69	2.83
S & P Ind. P/E ratio	28.14	28.03	28.44	18.68

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Closing price	Change on day
Glaxo	3,183,000	25	- ⅛
Ph Morris	2,996,400	76	+ 2½
Waste Man	2,953,400	34½	+ ¾
RJ Nabisco	2,764,600	9	+ ⅛
Telefonos	2,655,800	46	+ 2¼
Brad Inc	2,579,500	12½	---
Coca Cola	2,118,600	41¼	+ 1¼
Merck	2,055,300	49⅝	+ ¾
Wal-Mart	1,941,100	53⅜	- ⅛
AT & T	1,767,300	43¼	+ ⅛

TRADING ACTIVITY

† Volume (Millions)	Jul 1	Jun 30	Jun 29
New York SE	214.240	195.520	176.720
Amex	10.431	13.380	11.898
NASDAQ	186.083	195.188	159.521
NYSE			
Issues Traded	2,261	2,296	2,275
Rises	1,208	996	1,223
Falls	534	731	563
Unchanged	519	569	489
New Highs	78	63	50
New Lows	26	37	40

CANADA

TORONTO	Jul 1	Jun 30	Jun 29	Jun 26	1992 HIGH	1992 LOW
Metals & Minerals	(c)	3167.82	3126.91	3076.31	3238.87 (16/1)	2828.26 (8/4)
Composite	(c)	3387.70	3375.80	3351.30	3666.00 (16/1)	3318.10 (8/4)
MONTREAL Portfolio	(c)	1785.83	1788.50	1772.45	1937.59 (16/1)	1727.04 (8/4)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

**Saturday June 27: Taiwan Weighted Price: 4496.44 Korea Comp Ex. 551.88.
‡ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Thursday 2 July 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Ricoh	9.8m	689	+38	Citizen Watch	6.4m	886	+37
Toshiba	9.3m	662	+2	Suzuki Motor	4.4m	780	+35
Kao Denko	9.1m	906	+56	Hitachi	4.2m	797	+5
Meiji Milk	7.8m	983	+5	Kenwood	4.1m	838	+38
NPN Formula	7.4m	772	+100	Nippon Express	3.7m	731	+13

Price data supplied by Telekurs.

3:00 pm prices July 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Quote	Close Prev. Close	Ch'ge
[illegible]											

- B -

[illegible]

- C -

[illegible]

- D -

[illegible]

- E -

[illegible]

- F -

[illegible]

- G -

[illegible]

- H -

[illegible]

- I -

[illegible]

- J -

[illegible]

- K -

[illegible]

- L -

[illegible]

- M -

[illegible]

- N -

[illegible]

- O -

[illegible]

- P - Q -

[illegible]

- R -

[illegible]

- S -

[illegible]

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

Prices are supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3:00 pm prices July 2

NASDAQ NATIONAL MARKET

3:00 pm prices July 2

AMERICA

Dow declines on weak June jobs data

Wall Street

AFTER a hectic morning, US share prices were lower at mid-session after an extremely weak June employment report proved a bigger influence on market sentiment than the reduction in interest rates it had inspired, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was down 15.52 at 3,338.58. The more broadly based Standard & Poor's 500 *fell 1.09 to 411.79 and* the Nasdaq composite gave up 5.54 at 563.45. NYSE turnover was heavy at 149m shares.

The morning started firm as investors welcomed the Federal Reserve's decision to cut the discount rate from 3.5 to 3 per cent in the wake of some extremely bearish jobs data. The June employment report showed that the civilian unemployment rate had risen from 7.5 per cent in May to 7.3 per cent in June – its highest level since 1984 – and that non-farm payrolls had fallen by 117,000 in the month.

The figures shocked the market, which had expected a rise in payrolls and little change in the headline jobless rate, and confirmed that the weak economic recovery is having no impact on labour conditions, which continue to deteriorate.

The initially positive reaction to the rate cut soon gave way to pessimism about the state of the economy and the outlook for corporate earnings. Moreover, the Dow had risen more than *70 points earlier in* the week, so the rate cut had already been discounted.

Banks were a rare bright spot as investors bought in the anticipation that the new lower bank prime rates (which were reduced from 6.5 per cent to 6 per cent after the Fed's move) will boost earnings.

Chase Manhattan rose $1/2 to $28 1/2, Citicorp put on $7/8 at $21 7/8, Chemical advanced $7/8 to $38 1/2, JP Morgan climbed $1 7/8 to $58 1/2, Bankers Trust firmed $7/8 to $61 7/8 and BankAmerica rose $1 1/8 to $45 7/8.

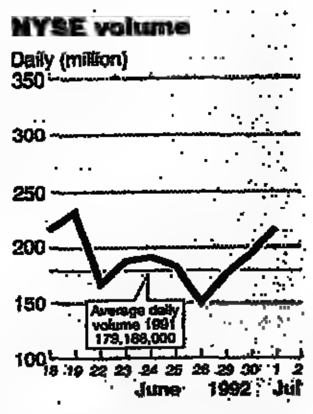
Other financial stocks were also higher on hopes that lower interest rates will boost business, including Federal National Mortgage, up $1 7/8 at $64, Salomon, $7/8 higher at $35 7/8 and PaineWebber, $1/4 firmer at $22 7/8.

On the way down were IBM, $1/4 lower at $97 3/4, Merck, down $1/4 at $49 7/8, Minnesota *Mining, off $2 1/4 at $96 1/4 and* Walt Disney, by $7/8 at $36 1/8.

Advanced Micro dropped $3/4 to $8 in turnover of 1.6m shares after it warned that price pressure on its 386 microchip line will leave second quarter revenues *15 per cent below the first* quarter.

Brazilian stocks rose 7 per cent in light midday trading, continuing their recovery after Monday's sharp losses on the political crisis over government corruption charges.

The Bovespa index was up 1,415 at 21,638, moving on rumours that an agreement with creditor banks on Brazil's $42bn commercial debt could be announced later in the day.



Canada

TORONTO stocks were firm but off morning highs with the gold and silver sector posting solid gains. On Wednesday the market was closed.

The TSE composite moved up 19.5 to 3,407.2 in volume of 15.7m shares valued at C$162m. The gold and silver sector index surged 148.96, or 3.05 per cent, to 5,040.41. Advances outweighed declines by 213 to 158 with 222 issues unchanged.

ASIA PACIFIC

Nikkei rises on interest rate hopes

Tokyo

THE STRONGER yen and lower short-term interest rates spurred hopes of an imminent easing in monetary policy, and the Nikkei average advanced 2.6 per cent, gaining for the third consecutive day, *writes Emiko Terazono in Tokyo.*

The index rose 432.56 to 16,757.63 on active buying by investment trusts, pension funds and dealers. It dipped briefly to the day's low of 16,239.76 in early trading on arbitrage-related selling, but climbed steadily in the afternoon to a high for the day of 16,802.79.

Volume expanded to 350m shares from 219m, with dealers active in speculative "theme" stocks. Domestic institutions, waiting to take profits, placed selling orders at higher levels.

Rises overwhelmed falls by 923 to 79, with 78 issues unchanged. The Topix index of all first section stocks moved ahead 32.71 to 1,291.69, and in London the ISE/Nikkei 50 index improved 6.01 to 1,026.72.

The dollar's fall against the *yen, higher bonds and lower* short-term interest rates encouraged dealers. Hopes that a US easing would prompt the Bank of Japan to cut the official discount rate added to the enthusiasm.

Investors were also comforted by assurances by Mr Kiichi Miyazawa, the prime minister, that additional economic measures will be implemented to support the slumping Japanese economy. During his meeting in Washington with Mr George Bush, the US president, Mr Miyazawa suggested that an additional economic support package could be presented this autumn.

Some traders, however, said the market's rebound was technical, as investors and dealers moved to square short positions ahead of the Munich summit. "Real demand" by institutional investors remained absent, they added.

High-technology shares with high export ratios rose on the US economic recovery theme. *Ricoh, the most active stock,* put on Y29 to Y569, while KOA jumped Y58 to Y908. Citizen Watch, a speculative favourite, advanced Y37 to Y896.

Taiyo Fishery forged ahead Y80 to Y461 on reports that the company would start breeding blue-fin tuna. Nippon Formula Feed, which has announced similar plans, climbed Y100 to Y772. Aids-related issues were once again firm on short-term buying by dealers. Meiji Milk Products gained Y8 to Y963 and Morinaga Milk Industry Y10 to Y839.

In Osaka, the OSE average surged 635.51 to 19,449.25 in volume of 12.7m shares.

Roundup

DOMESTIC factors influenced trading on the Pacific Rim. Kuala Lumpur and Jakarta were closed for holidays.

HONG KONG ended sharply lower after a day of volatile trading marked by rumours of a HK$3bn rights issue by Sun Hung Kai Properties. The Hang *Seng index retreated 51.01 to* 6,073.74 in turnover of HK$4.51bn, against HK$4.43bn.

Sun Hung Kai receded HK$1.50 to HK$34.50 and other property shares lost ground, Cheung Kong slipping 40 cents to HK$25.80 and Henderson Land also 40 cents to HK$19.40.

TAIWAN suffered a steep fall as disappointed investors dumped shares on expectations that the stock transaction tax would not be reduced. The weighted index finished 69.73, or 1.5 per cent, down at 4,454.06 in turnover of T$21.37bn, after T$18.45bn.

AUSTRALIA scored its biggest daily rise in seven weeks on hopes of an early interest rate cut. The All Ordinaries index closed 14.0 higher at 1,661.7. News Corp led the way, surging 64 cents to A$21.74 in line with overnight strength in the US market.

Banks fared particularly well. NAB appreciated 11 cents to A$7.89 and Commonwealth 9 cents to A$7.29. St George, however, Australia's newest bank, which was listed yesterday, slipped from its A$6.40 listing price to A$6.16, down 22 cents from its last trade on the unlisted market.

Queensland Cotton, the day's other new stock, closed 47 cents above its issue price, at A$2.37.

NEW ZEALAND finished at its best level for two weeks on optimistic buying ahead of the budget speech, due after the close. The NZSE-40 capital index added 19.35 at 1,541.41 in thin trading.

SEOUL dropped to a 53-month low as South Korea's trade shortfall widened to $310m in June, compared with an $85m surplus a year earlier. The composite stock index shed 3.70 to 548.28, the lowest level since February 1988. Turnover decreased to Won154.98bn from Wednesday's Won189.59bn.

MANILA closed lower for the second day on continued profit-taking. The composite index declined 10.52 to 1,513.57.

SOUTH AFRICA

JOHANNESBURG gold shares jumped in line with bullion which broke above $347 as the the dollar fell following the US rate cut. The overall index rose 8 to 3,659, *as the gold* index added 19 to 1,111. Industrials fell 12 to 4,506.

FT-ACTUARIES WORLD INDICES QUARTERLY VALUATION

The market capitalisation of the national and regional markets of the FT-Actuaries World Indices as at JUNE 30 1992 are expressed below in millions of US dollars and as a percentage of the World Index. Similar figures are provided for the preceding quarter.
The percentage change for each Dollar Index value since the end of the calendar year is also provided.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	Market capitalisation as at JUNE 30 1992 (US$m)	% of World Index	Market capitalisation as at MARCH 31, 1992 (US$m)	% of World Index	% change in $ index since DECEMBER 31, 1991
Australia (69)	108089.7	1.52	108339.7	1.52	-2.98
Austria (19)	12172.3	0.17	12090.6	0.17	+4.16
Belgium (46)	54020.4	0.76	51114.3	0.73	-0.58
Canada (116)	139255.3	1.96	140170.9	2.01	-7.46
Denmark (35)	28658.2	0.41	27089.4	0.39	-8.71
Finland (16)	1604.6	0.02	1586.1	0.02	+0.49
France (104)	257910.2	3.64	248199.8	3.55	+9.23
Germany (65)	288987.2	4.07	267296.1	3.82	+7.79
Hong Kong (55)	132022.6	1.86	103962.2	1.49	+48.50
Ireland (16)	9727.4	0.14	9581.7	0.14	-5.05
Italy (78)	97590.4	1.38	97369.9	1.39	-8.14
Japan (473)	1672397.9	23.57	1823305.5	26.09	-29.15
Malaysia (69)	36853.0	0.52	34061.4	0.49	+11.76
Mexico (18)	39031.6	0.55	47025.8	0.67	-0.27
Netherland (25)	118157.1	1.67	111401.7	1.59	+6.65
New Zealand (14)	11492.4	0.16	10822.3	0.16	-1.91
Norway (23)	7517.0	0.11	7097.4	0.10	-2.98
Singapore (38)	24522.4	0.35	22078.6	0.32	+1.23
South Africa (61)	87761.7	1.24	90848.2	1.30	-11.10
Spain (50)	84708.8	1.19	83751.8	1.20	-2.91
Sweden (28)	46847.4	0.66	26799.4	0.38	+6.56
Switzerland (65)	141160.7	1.99	116512.8	1.67	+10.82
United Kingdom (227)	831144.5	11.71	729065.3	10.43	+3.70
USA (522)	2863170.0	40.35	2821768.3	40.37	-2.09
Europe (798)	1980406.2	27.91	1788926.3	25.59	+4.36
Nordic (101)	84627.3	1.20	82542.3	0.89	-2.01
Pacific Basin (718)	1985331.1	27.98	2100699.8	30.06	-24.80
Euro-Pacific (1514)	3965737.3	55.90	3889626.1	55.65	-12.56
North America (637)	3002425.3	42.32	2961939.2	42.38	-2.35
Europe Ex. UK (569)	1149261.7	16.20	1059860.9	15.16	+4.81
Pacific Ex. Japan (245)	312933.2	4.41	277344.3	3.97	+15.80
World Ex. US (1708)	4231785.8	59.64	4167667.8	59.63	-12.27
World Ex. UK (2003)	6263811.3	88.29	6260370.8	89.57	-9.83
World Ex. So. Af. (2169)	7007194.1	98.76	6898590.9	98.70	-8.39
World Ex. Japan (1757)	5422557.9	76.43	5166080.6	73.91	+0.76
The World Index (2230)	7094955.7	100.00	6989436.1	100.00	-8.42

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY JULY 1 1992 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY JUNE 30 1992 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1992 High	1992 Low	Year ago (approx)
Australia (69)	146.66	+0.2	113.78	115.79	115.67	130.61	+0.3	4.19	146.39	113.99	116.45	115.95	130.27	153.66	140.94	141.74
Austria (19)	173.57	+0.1	134.66	137.04	136.89	136.91	-0.8	2.13	173.47	135.07	138.00	137.40	137.76	186.70	162.48	170.12
Belgium (42)	146.02	+0.8	113.28	115.28	115.16	112.35	+0.1	5.47	145.18	113.05	115.49	114.98	112.24	146.19	135.87	124.56
Canada (115)	125.71	-0.3	97.53	99.25	99.14	99.33	+0.0	3.31	128.13	98.22	100.35	99.90	100.33	142.12	124.32	133.29
Denmark (35)	243.93	+0.0	189.25	192.59	192.38	193.42	-0.4	1.84	243.86	189.90	194.02	193.17	194.29	273.94	226.81	237.44
Finland (15)	79.04	+0.6	61.32	62.40	62.34	66.45	+0.0	2.06	78.40	61.05	62.37	62.10	66.47	89.80	73.64	90.00
France (104)	163.26	-0.6	126.66	128.89	128.75	130.73	-1.0	3.56	164.32	127.95	130.71	130.14	132.10	168.75	146.06	121.47
Germany (65)	127.32	+0.7	98.78	100.53	100.41	100.41	+0.2	2.30	126.47	98.48	100.63	100.17	100.17	127.80	114.57	102.61
Hong Kong (55)	259.55	+0.5	201.36	204.91	204.71	257.58	+0.5	3.18	258.38	201.19	205.54	204.66	256.42	259.65	176.96	157.99
Ireland (16)	159.61	+0.2	123.83	126.02	125.88	127.97	-0.2	4.24	159.33	124.07	126.75	126.20	128.25	173.71	151.78	140.86
Italy (78)	68.71	-0.8	53.31	54.25	54.19	58.93	-1.1	3.54	69.25	53.92	55.09	54.85	59.55	80.85	68.39	70.82
Japan (473)	99.01	+2.9	76.81	78.17	78.09	78.17	+2.1	1.09	96.23	74.94	76.56	76.23	76.56	140.95	88.70	127.17
Malaysia (69)	241.01	+0.7	186.98	190.27	190.08	232.57	+0.8	2.69	239.36	186.38	190.41	189.58	230.83	250.18	212.49	226.44
Mexico (18)	1389.10	+0.1	1077.69	1096.71	1095.56	4742.35	+0.1	1.25	1387.45	1080.37	1103.74	1098.95	4736.72	1789.77	1355.22	1021.63
Netherland (25)	152.87	+0.6	120.35	122.58	122.45	127.07	-0.5	4.41	152.64	120.60	123.54	123.00	127.68	160.22	147.88	129.98
New Zealand (14)	46.14	+0.1	35.80	36.43	36.39	45.03	+0.2	5.04	46.08	35.89	36.66	36.50	44.94	48.52	42.01	48.06
Norway (23)	171.05	-1.4	132.70	135.05	134.91	137.91	-1.9	1.84	173.50	135.10	138.02	137.42	140.53	192.95	161.26	184.71
Singapore (38)	223.09	+0.3	173.07	176.13	175.94	168.29	+0.4	2.00	222.37	173.16	176.90	176.13	168.70	229.63	192.76	189.90
South Africa (61)	218.72	-1.2	169.69	172.68	172.50	183.35	-0.1	2.81	221.27	172.30	176.02	175.26	183.57	263.60	203.16	232.69
Spain (50)	150.30	-1.0	116.60	118.67	118.54	109.19	-1.4	5.69	151.85	118.24	120.81	120.28	110.73	181.72	146.89	142.13
Sweden (28)	193.55	-0.1	150.16	152.81	152.65	156.96	-0.8	2.51	193.78	150.89	154.16	153.49	157.92	200.28	173.09	184.78
Switzerland (65)	111.29	+0.0	86.34	87.87	87.78	94.21	-0.6	2.28	111.23	86.61	88.49	88.11	94.79	111.44	95.98	87.00
United Kingdom (227)	190.70	-0.8	147.95	150.56	150.39	147.95	-1.1	5.01	192.20	149.66	152.89	152.22	149.66	200.07	165.65	186.94
USA (522)	168.20	+1.1	130.49	132.80	132.66	168.20	+1.1	2.97	166.33	129.52	132.32	131.75	166.33	171.66	160.92	151.05
Europe (792)	153.54	-0.4	119.12	121.22	121.10	120.72	-0.8	4.02	154.12	120.01	122.61	122.08	121.69	156.88	139.31	127.14
Nordic (101)	179.78	-0.2	139.47	141.94	141.79	138.26	-0.7	2.21	180.08	140.22	143.26	142.64	140.19	188.52	166.66	177.00
Pacific Basin (718)	105.96	+2.5	82.21	83.66	83.57	84.59	+1.8	1.45	103.40	80.51	82.26	81.90	83.45	141.87	94.40	128.40
Euro-Pacific (1510)	125.20	+1.1	97.13	98.84	98.74	99.74	+0.5	2.72	123.89	96.47	98.55	98.12	99.22	145.21	113.80	126.23
North America (637)	165.54	+1.1	128.43	130.71	130.58	164.19	+1.1	2.99	163.80	127.55	130.32	129.77	162.45	169.69	158.70	150.17
Europe Ex. UK (565)	131.03	-0.1	101.66	103.47	103.37	104.66	-0.5	3.31	131.16	102.13	104.36	103.91	105.46	132.08	121.81	109.04
Pacific Ex. Japan (245)	174.38	+0.4	135.29	137.69	137.54	155.50	+0.4	3.44	173.74	135.29	138.24	137.63	154.88	175.31	149.00	140.57
World Ex. US (1704)	127.01	+1.0	98.54	100.29	100.18	102.11	+0.5	2.72	125.81	97.97	100.09	99.66	101.62	146.91	116.45	130.17
World Ex. UK (1999)	135.15	+1.3	104.85	106.71	106.60	119.82	+1.0	2.54	133.47	103.93	106.18	105.73	118.64	150.58	127.21	134.23
World Ex. So. Af. (2165)	139.45	+1.0	108.19	110.11	109.99	121.88	+0.8	2.82	138.09	107.52	109.86	109.39	120.91	153.70	130.84	135.80
World Ex. Japan (1753)	162.80	+0.4	126.31	128.55	128.42	147.95	+0.3	3.37	162.07	126.20	128.95	128.39	147.46	165.40	153.20	142.33
The World Index (2226)	139.94	+1.0	108.57	110.49	110.38	122.43	+0.7	2.82	138.52	107.87	110.20	109.73	121.53	153.70	130.66	136.24

Latest prices were unavailable for this edition. Canadian market closed July 1.

EUROPE

Continent dances to a transatlantic rhythm

BOURSES danced to overseas tunes yesterday, *writes Our Markets Staff.* With the painful exception of Milan they rose on overnight performance on Wall *Street and in Tokyo, kicked up* further on a good start for the Dow yesterday, then subsided as the Americans took a slightly harder look at their own problems.

FRANKFURT was strong in the pre-bourse, higher at the close with an apparent accent on dividend plays, and showed some strength in the afternoon on a strong bond market before the fall on Wall Street brought prices back again.

Institutional investors were slow to move, but turnover climbed from DM5.5bn to DM6.5bn as the FAZ index rose 4.41 to 699.74 at midsession, and the DAX put on 12.35 to 1,768.61 at the close.

The apparent dividend plays were *Volkswagen and Mannesmann*, up DM102.0 to DM388.50 and DM9.80 to DM302 at the close. VW went ex a DM11 dividend after hours and fell to around DM374 in the post-bourse; Mannesmann, which *does not go ex until Monday,* held its ground.

However, Ms Barbara Altmann of B Metzler observed that earlier weakness in VW this week had also been blamed on the dividend – that foreign shareholders did not want it since a tax credit makes it more valuable to German shareholders – and said that yesterday's rise was also merited on yesterday's slightly higher first-half profits, and the prospect of cost reductions in the second half.

The other headline stock of the day was Deutsche Bank, up DM9.10 to DM706 at the close, DM709 in the early afternoon on bond price gains and back to DM704 later as Wall Street took its toll.

PARIS had a volatile day, breaking above 1,900 momentarily on news of a cut in US interest rates which sent the bond market sharply higher. But Wall Street's equally fast drop sent share prices spiralling down by the close. The CAC 40 index closed 7.40 lower at 1,873.52 in improved turnover of FFr2.96bn.

Générale des Eaux was the most active issue of the day, rising FFr14 to FFr2,229 in 290,480 shares. A block of 200,000 shares was crossed at FFr2,190. Elf, ex dividend, dropped a net FFr6.60 to FFr351.50.

Paribas gained FFr5 to FFr349.90 on news that it would make a profit from the sale of its stake in Matra Communication.

The luxury goods group, LVMH, continued to fall, losing FFr18 to FFr3,761, as investors were worried about the gloomy outlook for the industry.

MILAN continued to slide as domestic investors continued to sell, worried by the weakness in the bond market and *by growing currency devaluation fears.*

Dealers also reported residual foreign selling, and spoke of a "crisis of confidence" in the stock market. The Comit index fell 6.34 to 444.51, its lowest since February 1988, in turnover estimated at L60bn after L99.3bn.

Fiat dropped L125 to L5,090 at its official close and fell to L5,045 later on. Italgas lost L3 to L2,799 in spite of notes from several brokers reassuring investors that gas supplies from Algeria were unlikely to be disrupted. The stock sank to L2,765 later.

ZURICH rose on active demand for chemicals, and insurers on hopes that Swiss interest rates would follow those in the US. The SMI index closed 9.3 higher at 1,864.6.

Ciba-Geigy led the active list on foreign buying, the bearers rising SFr14 to SFr679; Roche certificates added SFr30 to SFr3,370. Insurers were led higher by Zurich certificates, SFr21 firmer at SFr874.

AMSTERDAM was unable to resist the downward pressure coming from Wall Street and surrendered most of its early gains. The CBS Tendency index closed up 0.2 at 122.8.

The brewer Heineken was the day's best gainer, closing Fl 1.40 ahead at Fl 168.70 but volume was thin.

MADRID held on to close 0.60 higher at 236.05. Constructions stayed weak according to Mr Peter McGahan of Schroder Securities, banks offered a little encouragement with both rises and falls, and the mainstay was Telefonica which ended Pta25 better at Pta1,690.

Asturiana Del Zinc was quoted Pta275 higher at Pta2,125 after Wednesday's apparent Pta800 fall, but Mr McGahan said that the latter move was due to the company going ex-rights.

STOCKHOLM decided that it was technically oversold and the Affärsvärlden General index rose 10.5 to 917.4 after several days of decline in low turnover and waning interest.

Skandia, the insurer, a poor performer in the first six months of this year, recovered SKr4.50 to SKr103, compared with Monday's low of SKr94, on rumours of an imminent solution to the prolonged issue of the Norwegian company, Uni-Storebrand's stake in the Swedish company.

OSLO slipped to a new 1992 low, depressed by continued concern about interest rates in Norway and weak corporate earnings. The all-share index fell 2.7 to 393.2 in turnover of NKr174m. Uni Storebrand A-shares remained weak, losing NKr1 to NKr30.

ISTANBUL slumped in heavy profit-taking after eight days of gains which brought the index close to its five-month high. The 75-share index ended 4,344.66, down 197.94.

FT-SE Eurotrack 100 - Jul 2

Hourly changes							
Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close
1136.30	1137.98	1138.44	1137.53	1137.45	1138.12	1140.45	1134.63

Day's High 1140.95	Day's Low 1133.92			
Jul 1	Jun 30	Jun 29	Jun 26	Jun 25
1132.36	1138.30	1141.48	1145.05	1148.67

Base value 1000 (26/10/90)

Bangkok extends trading

By Victor Mallet in Bangkok

INVESTORS gave a lacklustre welcome to the Stock Exchange of Thailand's (SET) new afternoon trading session, with turnover reaching only Baht 4.43bn and the SET index closing 4.51 lower at 746.94.

SET officials say the extended hours – from 10am to 12.30pm and 2.30pm to 4pm – will allow Europeans to pay more attention to Thai stocks because trading hours now overlap. But foreign interest remains muted following the violence in May. Dr Asavin Chintakananda, SET executive vice-president, said: "We do not expect the volume to increase significantly in the near future."

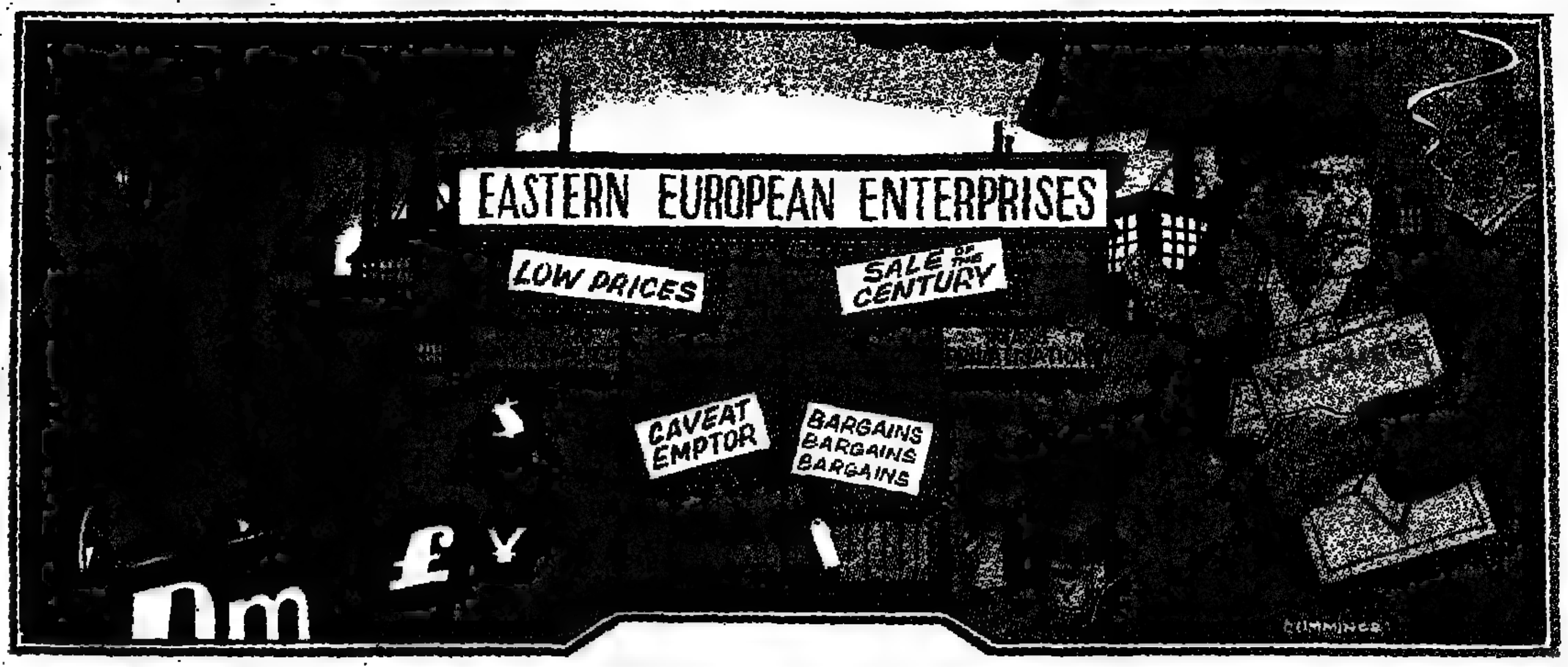
"It hasn't really galvanised investor enthusiasm," commented a broker, noting that most foreign investors were institutions who do not follow Thailand minute-by-minute.

Local speculators, who used to gamble on the market in the morning, and do other business in the afternoon, were also unenthusiastic.

PRIVATISATION IN EASTERN EUROPE

The fall of communist regimes in eastern Europe has opened the way for largescale privatisation programmes and the promise of greater prosperity. That is the theory. The practice is more tangled, writes **Anthony Robinson**

Not as easy as it looks



DEPRIVATION of property rights was at the heart of communism's destruction of civil society. So the fall of communist regimes throughout eastern Europe (and much of Asia) has opened the way for privatisation of state-owned enterprises and assets on an unprecedented scale. With it has come the promise of greater prosperity but above all the chance of creating a property-owning middle class to underpin democracy and guarantee the irreversibility of the escape from totalitarianism.

At least, that is the theory. The practice is a much more tangled tale. The earliest attempts at privatisation soon revealed the extent of the Stalinist system's perverse success in destroying the institutions, habits and above all the mental processes required for a private enterprise, market system to function.

With the exception of Czechoslovakia, and to a lesser extent the other east and central European countries "liberated" by the Red Army in 1944-45, this was a poor and relatively underdeveloped part of Europe before the Second World War. Capitalism existed mostly at a rather primitive and backward level. But at least the post-war Soviet satellites only endured 45 years of Soviet control. Vestiges of private enterprise and memories of markets remained.

However, once inside the former Soviet borders one enters a zone where even the memory of capitalism had been virtually eclipsed. Where capitalism survived it was largely as a criminal sub-culture of fixers with vast scope for mafia-like corruption arising from the party nomenklatura system which made party, factory and farm bosses little Tsars.

Judged against this background the privatisation process has made extraordinary strides. But the first pilot scheme largely funded by the UK's Know-How Fund to privatise selected Polish companies in 1990 showed the differences between privatising in a capitalist environment and attempting a similar process in a socialist desert.

The pioneers found this meant operating without an established legal framework, without functioning banks or stock exchanges – let alone any of the myriad specialised services such as security printing or financial advertising.

Since those early days fledgling stock exchanges and other institutions have been formed and much has been done to create a legal framework, usually closely based on European Community standards, covering crucial areas such as property rights, bankruptcy procedures and banking.

At the same time, the vexed question of profit repatriation has been greatly simplified in the three historically most advanced countries, Czechoslovakia, Hungary and Poland, whose currencies are now internally convertible. Russia is also about to make the rouble internally convertible as part of its drive to attract foreign equity investment. The eventual extent of the rouble zone remains unclear as the Baltic states, Ukraine and other republics are preparing to issue their own currencies.

Uncertainty shrouds the future of Czechoslovakia, with all indicators pointing to the split up of the federal republic into two separate states with separate currencies and privatisation plans.

Progress with privatisation and the accompanying legal, institutional and cultural changes diminishes as one moves further south and east. Recent World Bank funding for Romania and Bulgaria reflects awareness of the need to support the privatisation process in the Balkans. Civil war in former Yugoslavia is destroying the economic as well as political and social fabric, leaving only Slovenia to press on with privatisation and the cultivation of its links with Austria and Italy.

One of the main benefits from the privatisation process in eastern Europe has been the way practical needs have identified the priority areas where changes are needed to make not only privatisation but economic reform work.

The leading accounting firms, international legal practices and banks have established offices, often with large staffs, in the cities. Hundreds of trade sales of state-owned enterprises (SOE) to foreign multinationals have created a fast-growing core of often highly visible privatised companies which are both competitors and role models for state-owned enterprises still awaiting nationalisation.

Cherry picking by the multinationals has underlined one fact – that relatively few SOEs are really attractive takeover propositions and that privatisation of the rest is likely to get more difficult as time goes on. Hence the need for ingenious and unconventional mass privatisation programmes designed to help create capitalism without capital.

Poland was the pioneer in this. But three changes of government, the difficulty of retaining experienced staff in an over-bureaucratised privatisation structure, as well as the blocking powers of an unholy alliance between communist-era managers and Solidarity-dominated workers councils, have slowed down the pace.

Political developments in Czechoslovakia threaten to distract attention, at least in the short term, from a coupon mass privatisation programme, which, if successful, could well become a model throughout the region, including Russia.

The political victory scored by Mr Vaclav Klaus, the Czech leader, in last month's elections, has underlined the political significance of the privatisation programme.

He insisted that the first stage of the coupon scheme should be implemented before the elections. This ensured that 8.5m voters, both Czechs and Slovaks, went to the polls as owners of vouchers enabling them to acquire shares in 1,700 SOEs on offer in the biggest and quickest privatisation sale ever seen. Dismantling the federal structure will ensure that privatisation in the Czech lands at least will be pursued with renewed vigour. The outlook for privatisation in a sovereign Slovakia is more problematical.

Slovakia is not the only country whose over-sized, technologically obsolescent factories are virtually unsellable. There is growing awareness that a greater effort is required to restructure and improve the management of those SOEs which cannot be privatised in the short term but which cannot be allowed to collapse for social and political reasons.

At both government and enterprise level original assumptions about the value of these assets have been reduced. One management consultant always introduces his lectures on how to privatise against the background of a poster reading "an asset is worth what somebody will pay for it and nothing else".

One consequence is that governments, or the various national privatisation agencies set up by them, have changed their priorities. Privatisation, especially that involving purchase by foreign investors, is no longer seen primarily as a means of raising hard currency to bolster inadequate budget revenues, although that remains an important consideration.

What is looked for is the best commitment to future investment in restructuring and the biggest transfers of technology, management and marketing skills. The best deals are those which guarantee both the highest number of secure jobs and the fastest integration of the newly-privatised enterprise into the global economy as a hard currency earning asset.

Until now trade sales of the family silver to foreign companies, and auction sales, or restitution to former owners, of small scale assets such as shops, restaurants and houses have been the most successful forms of privatisation. But with many of the best assets privatised, especially in Hungary and Czechoslovakia, and domestic savings low or non-existent, the future will see greater attention paid to mass privatisation. Nevertheless, governments will still have to improve the economic performance, or close down, the industrial monuments to a failed system which can be neither privatised nor revamped.

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Editorial Production: Phillip Halliday

Western advisers find the challenge exhilarating but stressful

'Like the Foreign Legion'

FOR hundreds of western bankers, accountants, lawyers and purveyors of other professional services, the opening up of eastern Europe introduced them to a new Wild West.

The complexity of rebuilding capitalism has taxed their ingenuity and patience, and taken many to hitherto secret locations in the farthest flung reaches of the former Soviet empire.

It is a stressful area. "Our people in eastern Europe are a bit like members of the Foreign Legion, with more than a fair share of divorces and unhappy marriages among them," says the eastern Europe manager of one large accounting firm, who wishes to remain anonymous. But it it is also a place which attracts the young and the adventurous.

"You are in the forefront of history, you are trying to make privatisation work, you are inventing things all the time – in a world without stock exchanges or banks or even application forms," explains Mr Arnold Shipp, senior manager at Samuel Montagu which was one of the first UK-based merchant banks to plunge into the new area.

City firms, were quick to spot the potential new markets, and were greatly helped by the UK Know-How Fund, which finances a broad swathe of privatisation-related projects from its £25m-£30m annual budget for the area.

The greatest demand has been for accounting, auditing, evaluating, due diligence and other services, which has led the big six international accounting firms, and many smaller companies, to build up fast-growing practices in all east European capitals and other leading cities.

According to a survey by Privatisation International, which specialises in privatisation news worldwide, Coopers and Lybrand tops the list of east European assignments, closely followed by KPMG and Price Waterhouse.

In spite of the rapid growth over the last three years, the virtually zero starting point and desperate shortage of hard currency means that eastern Europe still represents only a fraction of most companies' overall business.

"There is a widespread belief that eastern Europe is the biggest thing that ever happened in the privatisation field. It isn't," says Mr Richard Gledhill, head of privatisation services for Price Waterhouse. "In terms of business and fee income the work generated by privatisation in Latin America, south-east Asia and Australia is much greater. Out of 800 partners worldwide only 10 or 11 are engaged full-time in eastern Europe which represents only around 5 per cent of total fee income and time."

"The three big markets for accounting and other professional services in eastern Europe are governments, state-owned enterprises and potential investors," he adds.

While the area remains relatively small in global income terms for foreign advisers of all stripes, demand for their services is growing fast.

The entire institutional and legal framework is having to be built up at the same time as deals are being negotiated to transfer property from often ill-defined "state" ownership to private hands. This is the main difference between privatisation in the former centrally planned economies and elsewhere.

The scale of the needs is the reason why "it is easier to get a mandate in eastern Europe than most places, but 10 times more difficult to actually close a deal," according to Mr Alasdair Dundas of Bankers Trust, who advised the Czech government on several early privatisation deals in the glass, cement and other areas.

" We have to do a lot of hand-holding" adds Mr Dominic Hollanby of Andersen Consultants, who is currently advising the Ministry of Privatisation in Lithuania. "Ministers and senior officials are often bright but inexperienced and surrounded by men who ran the old system and want to preserve their own jobs. The best combination of skills required by management consultants in this area is a good accountancy background combined with practical industrial experience," he says.

One of the most difficult tasks is helping to bring about the revolution in attitudes needed to transform the authoritarian, production-first mentality of the old management structures.

"There are very few sales, marketing or finance people around to shift the orientation from production to satisfying consumers. If privatisation is to succeed power needs to be shifted from the production men and engineers to managers with skills which as yet hardly exist," says Mr Hollanby.

The influx of highly paid foreign advisers, accountants, lawyers and consultants is not without stress for the newly-liberated host countries either. Nationalist feelings are rising throughout the region. For some local officials and resentful citizens, the western adviser has taken over a similar role to that formerly played by the discrete but ubiqitous KGB-linked Soviet advisers. For over four decades they sat in the important ministries.

Critics of the Know-How fund, for example, say it is more a form of outdoor relief for a London City financial establishment facing hard times than genuine aid to the east. Often the complainants are academics or local economists who are employed as sub-contractors, at low local pay rates, for western companies who then charge up to £200 an hour for producing the final product.

Substituting the beady eye of the accountant or lawyer for the tyranny of the central plan is clearly not a painless process. The urgency of transferring practical and organisational skills however is now widely recognised, especially by governments.

Time and again, the weakness of banking systems, shortage of capital and the uncontrollable increase in non-performing inter-enterprise debt emerge as mines set to explode under SOE's on the privatisation menu. That is why the World Bank, and other international institutions such as the European Bank for Reconstruction and Development (EBRD) or the European Community's Phare fund place top priority on funding programmes to train a new generation of central and commercial bankers.

With German banks deeply pre-occupied in building up their networks in former east Germany other European, US and to a lesser extent Japanese investment banks, are busy establishing bridgeheads and advising on a wide range of privatisation issues.

Credit Suisse First Boston appears to be the most active, setting up branches throughout the region to boost its agressive involvement in privatisation issues.

CreditAnstalt is prominent among Austrian banks busily re-establishing their presence in an area with long historical links. Among City-based banks Barclays de Zoete Weld has established offices in Czechoslovakia, Hungary and Poland while N. M. Rothschild, Samuel Montagu, Morgan Grenfell and SG Warburg are among other active players in markets which are increasingly perceived as requiring long term, and on-the-spot involvement.

Thus far competition is intense, costs are high and profits are small for most western companies selling their skills in a crowded and poor market. But without these skills it will not be possible to build the vital inter-connecting tissue of long neglected services without which neither privatisation nor a market economy is possible.

Anthony Robinson

Privatisation assignments worldwide in 1991

Firm	Countries	E.Europe jobs	Total jobs
ACCOUNTANTS			
Coopers & Lybrand	43	127	274
Price Waterhouse	40	88	246
Arthur Andersen	44	67	225
KPMG	19	98	155
Touche Ross	23	43	113
Ernst & Young	17	48	73
INVESTMENT BANKS			
Credit Suisse First Boston	12	34	57
N. M. Rothschild	11	10	25
Samuel Montagu	11	7	25
Morgan Grenfell	13	13	23
S. G. Warburg	12	3	20
Goldman Sachs	13	4	19
Salomon Brothers	11	7	16
Crédit Commercial de France	9	4	13
Schroders	6	6	9
LCF Edmond de Rothschild Bqe	5	4	9
LAW FIRMS			
Baker & McKenzie	6	28	32
White & Case	4	24	24
Allen & Overy	6	8	15
Linklaters & Paines	5	5	10
Denton Hall Burgin & Warrens	4	3	8
Cleary Gottlieb Steen & Hamilton	3	1	4
Norton Rose	2	1	2
OTHER CONSULTANTS			
NERA	4	2	10
Dewe Rogerson	4	3	6

Source: Privatisation International

LIMITS TO PRIVATISATION

Green fields also beckon

PRIVATISATION in all its many forms is the most important process at work transforming economies and societies throughout the region. But it is not a panacea.

Some potential foreign investors, having looked at the assets on offer, have concluded it is easier to make a greenfield investment than battle with bureaucrats in the various privatisation agencies, fight with the labour unionsover large scale retrenchments or risk unquantifiable obligations to clean up inherited environmental problems.

Significantly, most of the estimated \$3bn-\$5bn foreign equity investment in the region to date has been geographically concentrated on the three central European states – Czechoslovakia, Hungary and Poland. It has been focused on a narrow range of industries, mainly service, including the media and hotels, or consumer goods, including foodstuffs, tobacco, cosmetics and pharmaceuticals. Other targeted areas have been construction materials, especially glass and cement, or the automobile and components industries.

For the multinationals, the purchase of established consumer goods companies gives them a convenient base from which to infiltrate their famous brand names into almost virgin markets. In this way they extend their global competition for market share to areas which are poor now, but will not remain so.

This is of particular interest to the car and truck manufacturers operating in otherwise saturated markets. They need low-cost production centres in eastern Europe as much to improve competitivity in the West as to serve demand in eastern Europe where the transition to capitalism has been accompanied everywhere by steep falls in production and real incomes.

In effect, foreign investors are homing in on those sectors which were always given the lowest priority for investment under the old regimes which were obsessed with heavy industry. There are very few takers for the vast engineering plants which frequently are the main or sole source of income and support for entire communities.

Uncertainty over the future of thousands of plants such as these and armaments and defence-related factories, hangs like a cloud over the privatisation process. Many are surviving by extending loans to each other. The accumulation of such non-performing assets is reducing their net value by the day. Governments hope to include many such enterprises in the mass privatisation programmes, in the hope that the onus of closing them down will then rest on their new private owners.

Those that cannot be privatised in this way will either have to be openly subsidised or reduced in size or closed down. What frightens governments throughout the region is the risk that using the new bankruptcy laws to close such factories will set off a domino effect.

This can only be avoided by large scale re-capitalisation of the banks, to finance the inevitable write-off of bad debts, and provision of bridging finance for those enterprises judged to be either potentially viable in the long term of politically too sensitive to close. As yet, there is no clear idea as to how such programmes will be financed.

Czechoslavakia, which recently set aside Kcs50bn to partially clean up bank balance sheets from non-performing assets has made a start.

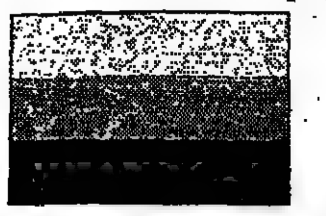
Poland has invented its own "sectoral privatisation" scheme, with the aid of foreign advisers, and hopes to tackle the problem by devising industry-wide privatisation and investment programmes. These would be managed by the proposed foreign-managed investment trusts. But the root of the problem is the shortage of management talent needed to turn round the big, ailing state enterprises and the shortage of domestic entrepreneurs able and willing to take on the ownership responsibilities for SOEs.

They would much prefer to found and build up their own small businesses. This is happening on a large scale throughout the region. The question is whether they will grow fast enough to allow the withering away of the old state enterprises to take place painlessly.

AR

■ GERMANY

Valuable lessons learnt



The difficulties begin, as the finance ministry points out, with the decisions on which should be restructured and how; who takes responsibility for old debts and who cleans up the mess left behind after decades of failed or non-existent environmental policies

The case of eastern Germany, once rated as the strongest economy in the communist bloc, has given a valuable, if chilling, insight into the difficulties confronting other east European countries trying to establish market economies.

Treuhand, or the job-killer as Germany's privatisation agency is widely known in the eastern provinces – is no model for them, insists Ms Birgit Breuel, the agency's president. Nor is the German experience directly applicable anywhere else.

The established social economy of western Germany provided the five new states with a proven blueprint for their conversion. It also provided funds at a level and a speed unimaginable further east, and extended a stable, experienced government and a tested legal system.

The re-absorbed provinces had access to a ready supply of management and supervisory skills and easy access to other western capital and know-how. North-Rhine Westphalia has seconded 1,000 civil servants temporarily to Brandenburg state to help set up a workable administration.

"These advantages are not available to other former communist countries. Each one must find its own way to a new economic system," Mr Theo Waigel, finance minister, told a recent east-west conference in Berlin. "But they share many similar problems, and our experience with these can help."

The common problems include rotting infrastructures and companies cobbled together from hundreds of disparate elements. Such an organisation in the former GDR might commonly have manufactured boilers, deck chairs, cutlery, milk bottles and engine parts under one corporate umbrella. Other issues common to all former socialist states include defining ownership of land, buildings and other assets, corruption, the almost total ignorance of meaningful book keeping, and over-manning at every level.

The German experience indicates that the first step is for the government to state clearly at the outset the main elements in its restructuring policy. Bonn did this only weeks after unification. The Treuhand, effective controller of the whole of east German industry, was up and working before it had proper offices, with a staff of just 50 people.

"Privatisation should begin as soon as possible with selected targets. The people must experience quickly that changes are under way," Mr Waigel said. It took Treuhand just nine months to sell off 15,000 small businesses: snack bars, kiosks, garages, restaurants and shops.

As for group structures similar to east Germany's Kombinaten, they should first be unbundled or broken up into coherent business units to form the basis of a configuration similar to the federal republic's Mittelstand, the mass of small and medium-sized private companies on which national economic success was founded.

Waigel: each one must find its way to a new economic system

Breuel: Treuhand is no model for the east

The Treuhand has sifted enterprises into three groups:

- Profitable and sellable
- Unprofitable but salvageable
- Hopeless cases.

Take the case of the east German textile industry. There were 330,000 textile workers when the Treuhand was set up 18 months ago. At the end of this year there will be about 30,000. According to Mr Hermann Beck, head of Treuhand's Potsdam branch, the situation is hopeless.

Not quite. Just as the former West Germany found new jobs for most of its own 400,000 displaced textile workers, now it has come to the aid of those cast adrift by the post-unification collapse of the industry in the east, aggravated by the almost total loss of its markets in the former Soviet Union. With training, early retirement, work creation schemes and the dole, it has ensured that the personal economic suffering has been minimised.

There are even some companies, such as the Branka spinning works in Brandenburg, considered still to have a chance. The company was singled out at the start as fit for restructuring, in agency jargon.

Annual capacity has been more than halved and the workforce has dropped from 750 people to 145. The works doctor, dentist and physiotherapist have gone freelance. The creche and kindergarten have been closed. The party hacks and Stasi secret police spooks who used to manage the entire east German spinning industry as a single Kombinat have disappeared. Even now, Branka's relative disadvantages seem overwhelming.

It has no financial history, no profits, few customers. Its relative advantages – restructuring, continuing management advice and investment at the hands of Treuhand and at the expense of the west German taxpayer – may save it. Like the 5,500 companies and 25,000 other properties still on the Treuhand's books, all it needs is a buyer.

The difficulties, as the finance ministry points out, begin with the decisions on which should be restructured and how; who takes responsibility for old debts and who cleans up the mess left behind after decades of failed or non-existent environmental policies.

Restructuring in east Germany has typically reduced company workforces by up to 75 per cent. It has also strained management resources unused to such monumental tasks. The past 18 months have shown that potential investors consider that most of the dirty work is a matter for government or government-sponsored agencies such as the Treuhand. Ms Breuel and her 3,500 team plan to wind up their activities by the end of 1994, acting on the belief that the quicker privatisation is achieved the better.

After that, it is for private enterprise to take up the reins.

"Experience teaches that privatisation is the best form of restructuring. The private investor takes over all the risks and opportunities when he buys a company. He will try, through investment, modernisation and realisation of market opportunities to increase the earning power of the business and with it the job security for his employees," says Mr Waigel.

"In this way the interests of the new owners tally precisely with the overall economic interests of the country," he concludes.

Christopher Parkes, Bonn

■ CZECHOSLOVAKIA

Divided over the speed of the process

In Slovakia, nationalist fervour and resentment at high unemployment and other negative side-effects of market reforms, proved stronger than economic self-interest. This could mean that the second wave of mass privatisation might only take place in the Czech lands

Last month's general elections in the Czech and Slovak republics illustrated for the first time the vote-winning potency of privatisation – and the divisive force of conflicting views over the need to speed up or slow down the process.

For Mr Vaclav Klaus, clear victor in the Czech lands, determined championship of mass privatisation through a complex voucher system proved an electoral trump card. Nearly 80 per cent of the electorate went into the voting booths as owners of a book of vouchers which they had bought earlier for a nominal sum, equivalent to one week's average wages. This included over 2m Slovak investors, many of whom opted to buy shares in Czech companies.

Klaus: championed privatisation through a voucher system

Meciar: committed to continue the programme

The vouchers entitled the holders to shares in any of the nearly 1,500 state-owned enterprises involved in the first of two waves of mass privatisation. With his signature on each page of the voucher book, Mr Klaus made sure that voters had a stake in the reforms and that, in the Czech lands at least, they identified their interest with his Civic Democratic Party (ODS).

However, in Slovakia, nationalist fervour and resentment at high unemployment and other negative side-effects of market reforms, proved stronger than economic self-interest. This could mean that the second wave of mass privatisation might only take place in the Czech lands, with a different and possibly slower timetable for Slovakia.

Privatisation is expected to power ahead in the Czech lands where the ODS won 30 per cent of votes while the communist party won only 14 per cent and effectively lost the power to interfere.

Bidding for the future shares begun two weeks before the polls opened. On May 18, over 8.5m citizens started using their vouchers to compete for a share in the equity of Czech and Slovak enterprises. Only a quarter did so individually. Confused by the complicated process and lacking basic information, 72 per cent of voucher holders entrusted their vouchers to one of the 436 private investment funds which sprung up earlier in the year to benefit from privatisation.

Without these private funds, with their pledges to buy voucher books for up to 10 times their purchase price after 12 months, the voucher scheme may never have got off the ground. The first funds, led by the enterprising Harvard Capital and Consulting Company, run by 28-year-old Mr Viktor Kozeny, promised to take the risk out of the initial investment for millions of potential investors who initially greeted vouchers with indifference.

Equity with a book value of Kcs299bn ($9.9bn) in 1,491 enterprises has been put aside for voucher privatisation. This is about 60 per cent of the book value of the assets being privatised this spring. A second wave is being prepared for the autumn. The mechanics of the voucher programme consist of a series of bidding rounds which are expected to last through the summer.

The first round started on May 18 and was completed in mid-June. Enterprises where the demand for shares outstripped the original valuation of the equity on offer will be subjected to a second round of bids. Up to five rounds of bidding are provided for at progressively higher prices in voucher terms until supply and demand can be matched.

No fixed percentage of equity was set aside for voucher privatisation and every enterprise involved was obliged to draw up its own privatisation plan. Some enterprises have 20 per cent of their equity slated for vouchers while others offer as much as 97 per cent. A minimum 3 per cent is set aside for the restitution fund, formed to compensate those illegally expropriated by the old regime.

Equity not involved in the voucher scheme can be privatised by a series of other methods, including public auctions, restitutions and direct sales to domestic or foreign investors. An estimated $2bn worth of foreign investment has been committed to Czechoslovak companies and as much as $3bn is in the pipeline, according to US advisers at the Czech Ministry of Privatisation.

However, Czechoslovakia's recent political developments could easily darken the prospects for the smooth continuation of the voucher programme. Nationalists, who won the upper hand in the smaller republic of Slovakia, have pledged to curtail the influence of the federal authorities in Prague over their economic affairs.

In the short term, Mr Klaus's voucher scheme should not be endangered. The new programme for the interim caretaker federal government, recently agreed upon by Mr Klaus and Mr Vladimir Meciar, the newly-elected leader of the Movement for a Democratic Slovakia, states clearly that both sides are committed to continue the privatisation programme.

Much will depend, however, on the intentions of the newly-elected left-wing leaders in the Slovak republic. Strong voices within Mr Meciar's party have criticised the voucher programme and have offered an ill-defined alternative based on employees' ownership. But attracting foreign investment will remain a priority for the small, cash-strapped republic.

To a certain extent, enterprises have restructured into Czech or Slovak joint-stock companies as they prepared for privatisation. However, in the rush to launch the scheme before the elections, federal authorities assumed a lasting and unified equity market.

Ten per cent of Slovaks have given their vouchers to Czech investment funds while less than 1 per cent of Czechs have placed their vouchers in Slovak funds. But Slovak funds are bidding for the shares of Czech enterprises which have better chances than their debt-ridden Slovak counterparts. Czech enterprises have attracted 90 per cent of foreign investment to date.

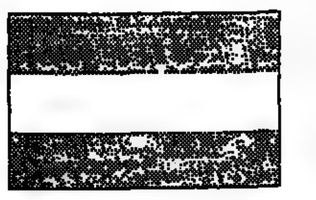
Until shares are distributed, enterprises slated for the voucher distribution are legally the property of the National Property Fund. If prolonged, this status could paralyse enterprises, foreign advisers believe.

In the long term, there are positive aspects to a division of the two republics. Western businessmen have often been hampered by the complexities of dealing with both republican and federal bureaucracies. Many say that dealing with just one government in each republic could facilitate foreign investment in both.

Ariane Genillard, Prague

■ HUNGARY

From infancy to mid-life crisis



Just three short years ago Hungarian companies were in the vanguard of eastern Europe's leap into the brave new world of private ownership. Since then, Hungary has undertaken a rapid privatisation

Hungary's privatisation has passed straight from troubled infancy to mid-life crisis. Just three short years ago Hungarian companies were in the vanguard of eastern Europe's leap into the brave new world of private ownership. Since then, Hungary has undertaken what officials claim is the fastest privatisation in the history of the world.

The region's pioneer privatiser is facing the aches and pains of maturity. So soon after starting the disposal of state-owned assets, Hungary is fast running out of companies to sell. Significant industrial sectors, including cigarettes and tobacco, distilling, brewing, vegetable oil, sugar, confectionary, bread, newspapers, paper, refrigerators, cement and glass are largely in the hands of western multinationals.

Recent events have shown there are are built-in limits to western cherry picking of prime national assets. First, Hungarians are no longer quite so convinced that they want western investors to dominate privatisation to the extent that they have. With nine out of the top 10 privatisations last year trade sales to western multinationals and 85 per cent of proceeds from foreign investors, some political backlash was virtually inevitable.

A poll by the Szonda-Ipsos public opinion pollsters showed only a small margin of 7 per cent between those who favoured privatisation of industry and those opposed. A nervous government is responding with a subtle move away from reliance on foreign investors.

The lopsided foreign focus on consumer goods industries is also unsustainable. A host of companies is still available for privatisation, but the best of the state's portfolio is exhausted.

"The major eye-catching areas, they are done, they are gone; there are still some gems out there but you have to look hard for them," says Mr Christopher Perrin, an investment banker at GZIZ, the central European investment banking subsidiary of Austria's Girozentrale. Consumer goods companies have been the first to be privatised for three main reasons. First, they were the natural target for multinationals searching for market share, the main attraction which drew western multinationals to eastern Europe in the first place. Second, many had close trading and licensing relationships with western companies which thus became natural privatisation partners. And lastly, title to property is clearer than in the case of, say, hotels.

The flipside is that the most difficult privatisation prospects have been left till last. "Some of the early ones went pretty easily, what is left will be more difficult," says Mr Perrin.

What remains in state hands, tends to remain there for good reason. Hungary is coming up against political and economic constraints on privatisation, which implies a likely hiatus in the process.

Hotels, banks and utilities are next in line for privatisation and each sector is potentially attractive to investors. But privatisation in each sector is proving fiendishly complicated. Their common feature is that the government impinges far more than in the trade sale of a manufacturing company.

In any country that is a recipe for delay and disruption. In a country such as Hungary, where democratic and efficient administration is developing painfully and falteringly after four decades of communist dictatorship, this creates bureaucratic impasse.

There is little doubt that the hotels, banks and utilities will survive to be privatised and the government will eventually get around to creating the necessary legal and administrative framework. The real problem lies with a third category of companies so financially unattractive that western investors will never bid for them on any conceivable terms.

Western advisers say part of the fault lies with the government's inflexible negotiating practice and inattention to its own ultra-liberal privatisation rhetoric. The SPA says that it accepts whatever price the market determines for a company – with the proviso that there be competitive bidding.

However, the agency, sensitive to attacks from the political right for selling out the country, has never explicitly declared that it would accept a zero purchase price if the market dictated that and has never announced any such deals.

In practice, western companies say, the SPA pays too much attention to meaningless asset valuations rather than market worth which drives investors' calculations. That is not so much of a problem when the subject is a profitable consumer goods company. But, for many industrial companies which remain and languish in the SPA's portfolio, asset valuations are a poor guide to what an investor would buy. This often makes for a gap between the two sides' negotiating positions. Most Hungarian companies are not interesting to western investors in their present form, whatever the price and however flexible the authorities. The challenge in these cases is to find owners for the parts of the Hungarian economy that western investors cannot reach. Recently Hungary has responded to this imperative with a highly empirical cocktail of privatisation measures. These include:

- A commitment that domestic investors will be preferred over foreign companies in the case of similiar bids for a company.
- Further help for domestic investors who cannot afford to buy a state company outright through concessional leasing, payment by instalment or option arrangements.

The government has also said that it would make more of an effort to divide up state companies before sale, partly to stimulate competition but also to make them more digestible for local entrepreneurs lacking the financial clout of western investors.

In recent weeks Hungary has given a nod to Czechoslovak schemes to spur domestic ownership by distributing rather than selling state property. The government is to hand over state assets to institutions such as universities. But wholesale distribution to the public through a voucher scheme is not on the agenda.

- Alongside the new initiative, the government is expanding a decentralised privatisation scheme for companies which are too small to have attracted interest from western investors and have generally lagged behind in privatisation. The decentralised scheme basically allows the management of the state company to privatise itself, with the help of a consultant.
- One other route for state companies into the private sector of increasing importance is through liquidation, which is growing as Hungary's bankruptcy law bites. Western advisers such as Price Waterhouse are particularly enthusiastic about the possibilities.

Liquidation allows an investor to reduce the acquisition's debt burden, to pick and choose which part of the state company to buy, and to bypass the authorities and deal with the creditor banks which are the effective owners.

There is a limit to what privatisation policy can do. Economic upturn matters far more. If interest rates continue downwards and profits recover, investors are expected to put their money in privatisation issues rather than in bonds or bank deposits. The ultimate accolade for privatisation is that the companies in private hands are those most strongly tipped to lead that recovery.

Nicholas Denton,
Budapest

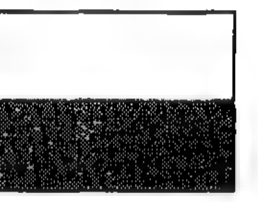
A steep learning curve

The privatisation process throughout eastern Europe has involved a steep learning curve and frequent changes of course, writes **Nicholas Denton**. *The following chronology of Hungarian privatisation traces the development of privatisation in one country.*

- December 1989: **Majority stake in state-owned Tungsram lightbulb producer sold to General Electric of the US for $150m, in the first large privatisation deal.**
- March 1990: **State Property Agency set up to supervise privatisation in response to accusations of corruption when companies "spontaneously" privatised themselves. Democratic elections produce a conservative government which is suspicious of communist managers safeguarding their positions through privatisation and pushes for tighter control.**
- June 1990: **Ibusz, the national travel agency, privatised by public offering and floated on the newly founded Budapest Stock Exchange. The price rises sharply after the launch but then falls well below the issue level, leaving investors with heavy losses and discrediting the stock market route for privatisation.**
- September 1990: **Hungary launches First Privatisation Programme, a closely controlled scheme by the authorities for model privatisations of 20 attractive companies.**
- March 1991: **100 per cent of Lehel, a refrigerator maker, sold to Electrolux of Sweden in Hungary's first outright privatisation sale.**
- October 1991: **Decentralised privatisation programme for small companies under way, marking a move away from bureaucratic control.**
- November 1991: **Flotation of Danubius, a hotel chain, cancelled after last-minute changes to the company's tax position, effectively killing the First Privatisation Programme.**
- December 1991: **Spate of trade sales of state-owned consumer goods companies to western multinationals give Hungary $500m in privatisation proceeds in 1991.**
- January 1992: **Mr Tamas Szabo appointed minister responsible for privatisation, giving clearer political direction to the State Property Agency after a year of damaging turf battles within the government over control of privatisation.**
- May 1992: **As figures show western multinationals dominating privatisation and government unpopularity mounts, measures announced to stimulate domestic participation in privatisation. They include easy payment terms for domestic investors and discrimination in favour of them over foreign investors in the case of similar bids.**

■ POLAND

Much lost time has to be made up



The most successful part of the country's privatisation drive has been through liquidation. Since 1990, some 540 state sector businesses employing 180,000 people have taken this path

The lions and other animal acts performing in Polish circus arenas this summer will be privately owned, for the first season in over 40 years.

It may not seem much to get a trained seal off the state's books. But the state circus occupied a special place in the communist propaganda armoury and its change of status is a landmark of sorts on Poland's faltering path to a market economy.

In past months such landmarks have been few and far between as the previous government headed by Mr Jan Olszewski dithered and allowed the process to slow.

The new government will have to appoint a strong political personality to head the privatisation ministry and give his programme top priority if the lost time is to be made up.

Mr Jan Ledochowski from SG Warburg, the London-based merchant bank, which is the main adviser to the Polish government on privatisation says that the legislation for mass privatisation and the creation of investment funds to manage the newly privatised share portfolios is ready and awaiting a government decision.

The main problem is that forming a government could still be a lengthy process, and even after government upheaval the legislation could still face a possibly lengthy and tormented passage through parliament.

The most successful part of the privatisation drive has been through liquidation. This is the process under which the ZPR circus, for example, was privatised last autumn. Since 1990, some 540 state sector businesses employing 180,000 people have taken this path. In essence, it marries a leveraged management buy-out with an employee equity stake and sometimes an outside investment from small private business.

The snag for the government is that most of the 540 privatisations under the liquidation scheme are small units such as industrial design bureaux where capital equipment requirements are low and the value lies in the expertise of the staff.

This illustrates the general rule that privatisation has gone quickest wherever capital requirements have been low and skills developed in the past could be easily redeployed. This explains the speed with which domestic and foreign trade has been privatised.

Some 80 per cent of the country's retail outlets are in private hands, most of them family businesses in premises rented from local councils. Some wholesale sectors have been privatised. For example, 80 per cent of domestic trade in steel products and 40 per cent of all registered imports were run by private traders. The main difficulties concern sales of industrial assets especially the large factories.

Initially, it was thought that speedy disposals could be achieved by sales of shares through public offers to domestic investors and trade sales to foreign companies. But investor interest has waned in line with a steady decline of share prices on Warsaw's stock exchange and the failure of most of the 13 quoted companies to pay a dividend this year.

Foreign investment last year trickled in through the succession of trade sales which raised about $150m and transferred relatively modern plants such as Pollena Bydgoszcz, a detergents plant, to Unilever or domestically recognised brand names such as Wedel, a chocolate manufacturer, to PepsiCo foods.

This year, however, the upheaval at the Privatisation Ministry which accompanied the change of government last January delayed talks on further sales with foreign investors. Prospective clients held off to see how the situation would develop.

At the same time, Mr Tomasz Gruszecki, the new minister instituted a network of consultation procedures down to the shop floor which delayed sales decisions.

Meanwhile, opinion polls show that opposition to privatisation is growing.

In September 1990, CBOS, the government's own polling unit, reported that 43 per cent of the population said privatisation would serve the interests of the economy. Last month a mere 18 per cent were still convinced.

Against this background, privatisation through foreign investment this year has been meagre. ABB, the Swiss Swedish power plant producer, bought 51 per cent of the equity in the Elta transformer factory in Lodz for $10.4m, and CPC, the US company which produces Knorr and Marmite, bought Amino, a dehydrated foods processor in Poznan for $8.8m.

The biggest deal to date has been Fiat's $2bn stake in the FSM plant in southern Poland. FSM produces Fiat's new Cinquecento model and the latest deal should bring in further foreign investment by Fiat's own suppliers keen to have a cheaper production base from which to serve the Cinquecento assembly line.

Several large deals are in the pipeline and ministry negotiators remain optimistic.

"Most of the 30 trade sales we were expecting in the first half of this year are going to happen," says Mr Michal Rusiecki.

He points to pulp and paper, power engineering, edible oils and possibly telecommunications as areas where sales are expected.

All this will not be enough to achieve the target of placing most of the economy in private hands by the middle of the decade.

Hence the need for the ambitious mass privatisation plan which aims to put some 400 companies representing 25 per cent of industrial sales under western management through a framework of investment funds.

The funds could well be established in the autumn according to Mr Jerzy Thieme, at the Privatisation Ministry who with help from SG Warburg has designed the plan.

Mr Thieme reports that interest by prospective western managers is still there and initial financing has been promised by the World Bank and the European Bank for Reconstruction and Development.

However, the scheme could be subjected to a reappraisal by the incoming government as well as delays from the most unexpected quarters.

President Lech Walesa, a keen advocate of privatisation, has his own plan which includes a projected 10-year interest-free loan worth $10,000 to every citizen in the form of coupons which would be repayable after 20 years in cash.

The president, apparently unaware that there is a shortage of funds to cover such a loan, recently suggested that the sum should be increased five fold.

His aim is to lift the privatisation programme as well as bolster his support in the country. But if he persists the most likely net result would be to hold up the mass privatisation programme on which so much time and ingenuity has already been expended.

Christopher Bobinski,
Warsaw

■ RUSSIA

Prepared to consider alternative approaches

The important thing is that after months of agonising over how to start privatisation, Russia has at last begun the process which all reformers in the former Soviet Union agree is essential to moving towards a market economy

Before it was privatised, the windows of Moscow's Gastronom number 44 were decorated with empty cartons for milk which it rarely sold. Now that it has been privatised and renamed Ukraine Trading Firm, the cartons remain and there is still no milk for sale on a regular basis.

This is the meagre result of a mass privatisation of the capital's shops by virtually handing them over to their workers for a nominal price by Mr Gavril Popov, the capital's former mayor. His aim, he said was "smashing state property at any cost" to reverse 75 years of socialism.

Mr Anatoly Chubais, Russia's privatisation minister, argues that such transfers of assets to workers for an extremely low book value are "socially unfair, economically ineffective and politically dangerous".

However, he also admits that the task of taking out of state hands an economy which is 97 per cent state owned is "so great that one should not forbid or exclude alternative approaches". Mr Chubais's biggest worry about his approach is that there will be insufficient demand for enterprises that will be offered for sale.

The government is also in the process of sorting out what to do about foreigners

The important thing is that after months of agonising over how to start privatisation, Russia has at last begun the process which all reformers in the former Soviet Union agree is essential to moving towards a market economy. The next headache is how to progress from small privatisation to the privatisation of big enterprises, most of which badly need painful and costly restructuring, and many of which are so obsolescent or so polluting that they need closing.

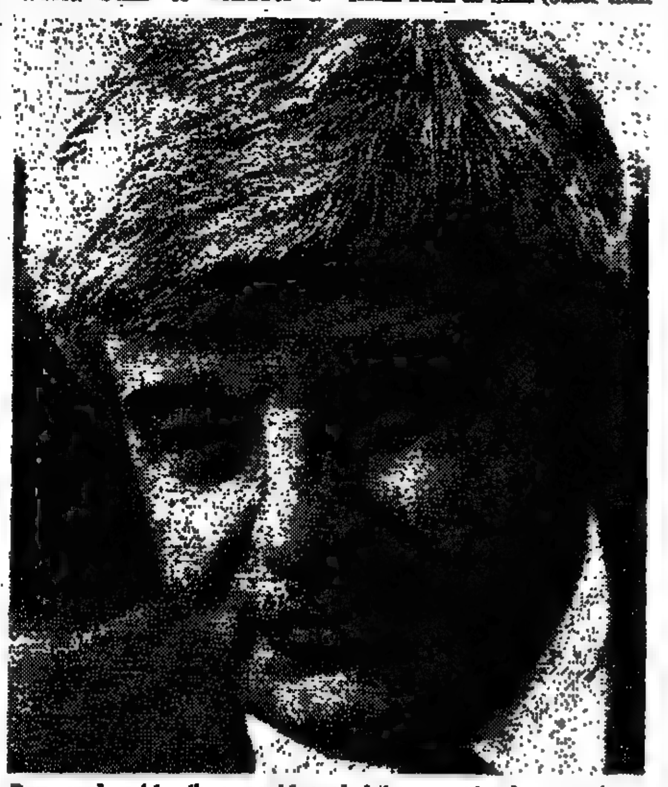
While some republics have gone further in some directions – Armenia, for example, has privatised most of its farming land – others, such as Belarus and the central Asian republics have not even begun taking the economy out of state control.

For the small-scale privatisation which Russia is trying to achieve this year, Mr Chubais favours auctions to dispose of shops, restaurants and small enterprises in those parts of he country over which he has some control.

The extent of his authority falls far short of the formal borders of the Russian federation which stretches from St Petersburg to Vladivostok and everything in between.

Moscow, for example, has special permission to use its own approach with the city boundaries. The autonomous republics within Russia, such as Tataria, simply do not obey the government, while everywhere else the rules are frequently broken by acts of so-called nomenklatura privatisation. This is the process wherebye state-owned assets are transferred, usually at nominal prices, to private companies owned by friends or family of the managers involved, defrauding both the state treasury and ordinary citizens.

Earlier this year the untypically enlightened local authorities of Nizhny Novgorod, east of Moscow, teamed up with the World Bank to conduct a model auction of shops, which was a big success. Using this politically useful but rare example Mr Chubais, in his welcoming speech, underlined that collective or state owned enterprises need the shock of competition, and the experience of having to pay real money for their acquisitions, in order to change their behaviour.



Popov: aimed for the smashing of state property at any cost

The next headache is how to progress from small privatisation to the big enterprises

Although Moscow provides impressive statistics for the creation of property owners, there is little incentive for a change in habits. There is no danger of going bankrupt because there is no law on bankruptcy, there is little competition, and for the time being shops are simply passing increased costs on to the beleaguered consumer.

"There is a big political danger that Muscovites will read the newspapers, and hear that trade has been privatised but then when they go to the shops, they'll see nothing there," Mr Chubais warns.

Mr Chubais believes his method is the least prone to corruption, while Mr Popov, a man of older years, says corruption is inevitable, and indeed desirable.

That there should be few practical benefits from the privatisation conducted so far in Moscow is also a sign of how much more needs to be done in the rest of the economy.

There is no wholesale system to speak of – just an inefficient state-controlled distribution system and virtually no competition. While Gastronom 4 bought pineapples from a local hard currency store and sold them for a big rouble mark up, it rarely has basic items such as milk (other than extremely expensive long-life milk from Italy). This is a consequence of the poor supply, storage and transport facilities which blight all aspects of the economy.

The need to think of the entire food chain as one long, series of unbroken links stretching from the field or dairy, through to the wholesaler or processor and on to the eventual consumer is the principal lesson which the British Food Consortium, consisting of the UK's biggest food and distribution companies, has been emphasising. It sees it as part of the uphill struggle to improve and privatise food supply in Russia and Ukraine.

For the privatisation of large enterprises, which is due to start next year, Mr Chubais believes that the Czechoslovak system of distributing vouchers to the population is the most promising route for Russia to follow. Just back from a trip to Prague, he noted that 420 investment funds set up to manage shares had appeared spontaneously.

The Russian government plans to launch its own voucher distribution scheme this autumn – after sorting out practical details such as whether they should be given out for free or paid for, and who would receive them.

The situation in Russia is complicated by the fact that it was born out of the Soviet Union's collapse.

In the absence of Russian citizenship laws, the government had to find an effective criteria for supplying vouchers to Russians only. Not all the inhabitants of Russia are Russians, while a lot of Russians live outside Russia.

For this reason the government will be declaring a deadline for Russians to return to Russia in order to receive vouchers, while everybody who is permanently resident in Russia will receive vouchers even if they are not Russian.

The government is also in the process of sorting out what to do about foreigners. Having dropped plans for a special exchange rate for foreigners (to prevent Russians from being squeezed out of the race by an extremely weak rouble), the government is casting around for an alternative system of giving its own nationals equal opportunities.

The suggestions it has come up with so far – setting aside special enterprises for foreign investors or multiplying the price of assets bought by foreigners by special coefficients – are all difficult to operate in practice. Mr Chubais claims to prefer avoiding any special practices for foreigners on the grounds "that the more foreign investment there is the better".

In the absence of a bankruptcy law on which is a prerequisite for closing down inefficient enterprises and a threat for those which fail to restructure, privatisation of large enterprises is likely to remain a limited for some time to come.

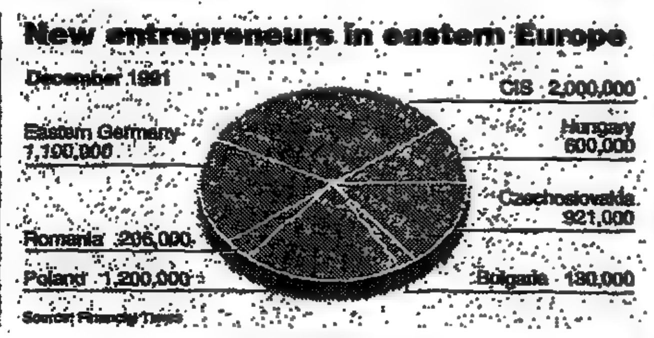
The government has ordered them to turn themselves into joint stock companies in preparation for possible privatisation starting next year, or earlier if they are ready.

Attempts to attract foreign investment to big enterprises show this is likely to continue to be negotiated on a case-by-case basis. But foreigners are reluctant to buy into enterprises which are heavily overmanned and over which they are unlikely to have control.

What is more likely is that there will be a prolongation of the present system where joint ventures are limited to those assets which foreign investors are interested in. These are then hived off from the rest of the enterprise in order to insulate them from the inefficiency of the complex as a whole.

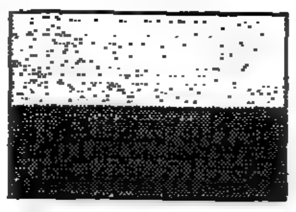
Leyla Boulton,
Moscow

New entrepreneurs in eastern Europe



■ UKRAINE

Nation that is building the apparatus from scratch



As yet, the privatisation process in the Ukraine has hardly begun and foreign investors are holding back until the authorities can show that they are able to run an independent currency

The bitter dispute between Russia and the Ukraine over control of the Black Sea Fleet in recent months underlined, in an extreme way, the problems attached to establishing ownership rights in this part of the world.

After several months of increasingly tense negotiations and stand-offs Mr Boris Yeltsin the Russian president and Mr Leonid Kravchuk his Ukrainian counterpart, agreed at their Black Sea resort meeting last month that the fleet would be divided between the two states.

What was needed was 'the familiar trinity of stabilisation, liberalisation and privatisation'

They discussed the basic ground rules for future trade and other relations following Ukraine's decision in principle to leave the rouble zone and issue its own currency.

While weighty issues such as these were still pending it proved difficult for the Ukrainian authorities to move ahead with important economic reforms, such as implementing the privatisation process for which most of the legislation is in place.

Ukraine, the largest of the new states to emerge from the break up of the Soviet empire with over 50m inhabitants and an area greater than France, has virtually had to build a state and government apparatus from scratch.

Both the president and Mr Vitold Fokin, the prime minister, are former communist apparatchiks and there is a dangerous lack of experienced personnel to staff the new ministries and the institutions needed to transform an economy based on heavy industry, mining and large scale collective grain farming.

All these problems particularly the shortage of competent staff, are common to the entire area, but in Ukraine with its ambitions to become a fully developed European state after centuries of subservience, the scale is bigger because the country is so big.

For this reason, Ukraine is a good place to observe the interconnectedness of the privatisation process with economic and financial reform in general.

During a recent visit to London, Mr Volodymyr Lanovoi, the privatisation minister, sought to attract foreign investment by explaining the new foreign investment law, which has now approved by parliament, within the broader context of plans to privatise 65 per cent of its nearly 10,000 large and medium-sized enterprsies within five years.

As yet, privatisation has hardly begun and foreign investors are holding back until the authorities can show that they are able to run an independent currency.

Hambros Bank is advising the government on monetary and privatisation issues and Sir Michael Butler, who formerly headed the UK permanent mission in Brussels and is one of the leaders of the Hambros team, emphasises that Ukraine's top priority must be to establish its monetary and fiscal credibility and above all tackle the problem of fast mounting inter-enterprise debts.

Without tight control of monetary policy and a serious effort to curb enterprise indebtedness Ukraine risks hyperinflation which would destroy the credibility of its a planned new currency at the outset and make it virtually impossible to proceed with privatisation.

Ukraine, the largest state to emerge from the break up of the Soviet empire, has more than 50m inhabitants

Ukraine is getting similar warnings from the IMF and World Bank.

On a recent visit to Kiev, Mr Larry Summers, the World Bank's chief economist warned that "without more rapid reforms a new currency would be a very perilous undertaking".

What was needed he said was "the familiar trinity of stabilisation, liberalisation and privatisation". But privatisation existed "only on paper".

To underline the point Mr Lanovoi recently threatened to resign unless the present government, staffed largely by former communists, was re-organised and a new committment shown to putting privatisation and other reforms into practice.

An example of the kind of problems which lie ahead as the economy moves to market methods came last month when Germany decided top withdraw from the Krivoi Rog iron ore project on which several hundred million dollars has already been spent by Germany, Czechoslovakia, Bulgaria and Romania as well as Ukraine.

Designed to supply iron ore to the steel industries of all the partners, the application of western accounting methods demonstrated that the ore was too poor and production costs too high to compete with imports.

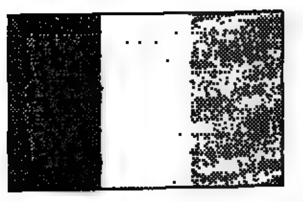
On the same basis, a high proportion of Ukraine's coal, engineering and chemical production will also find it difficult to attract new investors and compete in world markets.

Anthony Robinson,
London
and Chrystia Freeland,
Kiev

Boris Yelstin (left) met Ukrainian president Leonid Kravchuk to discuss the republics' problems

■ ROMANIA

The back of the pack



In spite of the adoption of an ambitious privatisation law last August, the country has yet to privatise a single company in the state sector which still accounts for more than 90 per cent of industrial production.

Romania lags well behind its central European neighbours in starting privatisation. In spite of the adoption of an ambitious privatisation law last August, the country has yet to privatise a single company in the state sector which still accounts for more than 90 per cent of industrial production. The private sector which contributed 24 per cent to gross domestic product last year is concentrated in trade and tourism.

Although an inheritance law has been re-established and over 70 per cent of agricultural land is now in private hands, the government has yet to decide whether private residences expropriated by the former communist regime should be retained by tenants or restored to their previous owners.

Nor has parliament, which has been locked in acrimonious in-fighting over the election laws for several months, completed the legislation needed for the six ownership funds which form the basis of the country's privatisation scheme.

In spite of the political problems, the National Privatisation Agency (NPA), the government body responsible for organising privatisation, has accelerated the process since January and begun to implement existing legislation. It has initiated a pilot privatisation scheme involving 30 companies, begun to auction assets and started to distribute ownership certificates to the public.

Under the privatisation law, Romanian citizens will receive, free of charge, 30 per cent of the capital of commercial companies which will be held in five Private Ownership Funds (POFs), or mutual funds.

The remaining 70 per cent, earmarked for foreign and private investors, will be transferred into a State Ownership Fund (SOF). The SOF, loosely modelled on the German Treuhand, will be responsible for carrying out privatisation and for restructuring larger enterprises. The law stipulates the SOF must sell-off 10 per cent of its equity every year.

An important element of the Romanian scheme is the "commercialisation" of the state sector ahead of privatisation. In July 1990, 6,200 state enterprises became either joint stock or limited liability companies. These companies, which represent 55 per cent of state equity, will be sold-off under the privatisation scheme. The remaining 45 per cent will be taken up by 330 *regie autonomes*, state corporations, concentrated in strategic areas such as power, transport and telecommunications, which the government will retain with the right to sell them off directly.

Under the privatisation law, Romanian citizens will receive, free of charge, 30 per cent of the capital of commercial companies which will be held in five Private Ownership Funds (POFs), or mutual funds

The NPA, which in the last financial year received nearly $5m from the European Community's Phare programme, admits there have been serious delays in starting privatisation but insists there is some justification.

"Our situation is entirely different to Hungary or Poland," explains Mr Doru Tiberiu, the agency's general manager. "Prior to 1989, Romania had the most highly-centralised command economy outside the former Soviet Union. Our reforms will therefore take much longer and we also need to place more emphasis on educating the population about the transition."

There are other reasons for stressing education and training. Romania, more distant from European Community markets and with a reputation for political instability, has not attracted much foreign investment. At the end of April, foreign investment since January 1990 was less than $350m.

Delay in starting reform has held up foreign aid and loans, depriving the country of the funds it needs to undertake economic restructuring. Even with promised foreign credits of more than $1.5bn this year, Romania is still short of funds for privatisation.

The POFs and SOFs will only receive three months of start-up advice from Lazard Freres, the French bank, before being left to manage their portfolios alone.

However, western business consultants involved in the pilot privatisation scheme point to advantages in being a late starter.

"The transition of the former communist countries is a lot more complicated than we first imagined," says Mr Nicolas Pelletier of Paribas, the French bank, which helped formulate Poland's Mass Privatisation Plan.

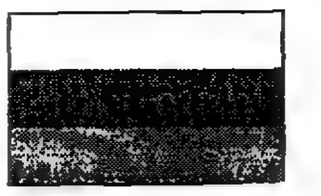
"Romania has taken the time to work out a good mechanism for privatisation and can draw on the experiences of the other countries. In the long term, this is far more important," he adds.

With the system still several months away from full operation, it is too early to evaluate comprehensively privatisation in Romania. At the same time, general elections and a political shake-up loom. The NPA may be pressing ahead but privatisation remains a contentious issue.

Virginia Marsh,
Bucharest

■ BULGARIA

Slow starter that is struggling to catch up



The preliminary stage of the privatisation programme involves the transformation of state enterprises into joint stock companies whose shares can eventually be sold off to the public

Bulgaria was the last of the former Soviet satellites to throw off communist rule and the slow pace of political reform is reflected in the equally slow pace of privatisation. Ironically it is one of those countries which needs privatisation the most.

It was long the most slavish copier of the Soviet model and its $12.2bn foreign debt is one of the most onerous per capita burdens in the region. Geographically it is one of the furtherest away from western markets, although relatively close and easily connected by sea to the Middle East.

Leaving the vast bulk of industry and most other assets in the hands of the former communist nomenklatura for so long provided a vivid example of the danger of delaying change. In the spring of 1991 the Bulgarian Socialist (former communist) party government introduced a "small privatisation law" which had to be repealed a few months later. It proved to be a conduit for managers of state enterprises to abuse their positions by widespread asset-stripping.

As Hungary and other former socialist countries found in the early days of privatisation the temptation for the managers of state assets to usurp the privileges of ownership and hive state assets off into private companies owned by them or their political allies is enormous in the absence of effective legislation and other safeguards.

Since then the situation has improved substantially. The non-communist government which emerged after the October elections under Prime Minister Filip Dimitrov placed a high priority on privatisation. It called in officals from the European Community's Phare Fund and other western advisers and also asked privatisation experts from Czechoslovakia, Hungary and Poland to share their experience.

The net result was a privatisation law which was approved by parliament on May 8 this year. The law benefited from the experience in privatisation accumulated elsewhere in the region over the last three years but still needs further implementary legislation to come fully into effect.

Bankers familiar with the privatisation process say that Bulgaria has moved fast in recent months to draw up vital complementary legislation in the foreign investment, company law, competition, banking, insurance and other fields designed to attract much needed foreign investment. At the same time, many of the former monolithic state enterprises have been restructured prior to privatisation.

Progress in all these areas improves the prospects both for an eventual debt reduction agreement on Polish lines and approval of credits from the IMF, the World Bank and other institutions. The need to attract foreign investment was underlined by the 27 per cent drop in industrial production last year. Heavy investment is needed not only to improve efficiency but also to reduce the levels of environmental pollution, including the danger of nuclear contamination from the country's big Soviet designed nuclear power station.

Until recently foreign investors have tended to shy away from Bulgaria although recently the Rover Group, the UK car manufacturer, negotiated a joint venture with the Defence Ministry to assemble cars, Land Rovers and pick-up trucks at former military plants.

Geographically, it is far from western markets but relatively close to the Middle East

Earlier this year Mr Dimitrov spent 10 days in the US hoping to drum up investor enthusiasm for privatising important sectors such as telecommunications and modernising the countries extensive, but largely obsolescent electronics industry. Other sectors with foreign investment potential which were slated for privatisation included tourism and agro-business. The Bulgarian-American enterprise fund has $55m available to finance such projects over the next three years.

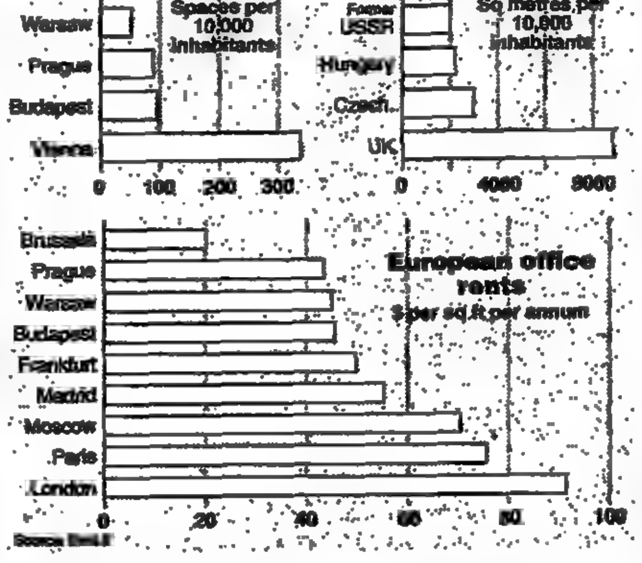
The first stage of the privatisation programme involves the transformation of state enterprises into joint stock companies whose shares can eventually be sold off to the public.

At least 20 per cent of the shares of privatised enterprises will be retained by the government and placed in an investment fund.

This will be used to finance social security funds and limited compensation for former owners who were illegally expropriated.

Anthony Robinson

Dimitrov: placed a high priority on privatisation



Shortage of prime office space and rising demand has inflated rents to west European levels, writes Anthony Robinson. Rising tourism and rampant consumerism are also outstripping existing hotel accommodation and retail capacity. For many state enterprises selling or renting property has become a way of raising capital or keeping afloat.
See Property on Back Page

AVOIDING THE LEGAL PITFALLS

Rules and beyond

BUILDING A legislative framework for inbound investment is one of the most important tasks facing the post-communist governments of eastern Europe.

Foreign investors demand transparency and need to know not only the rules for investment but the rules of the process by which their capital is admitted.

They also need to know which criteria are used by those involved in reviewing privatisation proposals to differentiate between good and unacceptable proposals.

These are the necessary basis both for commitments from foreign investors and the warranties and indemnities given by the selling state authority.

Poland, Hungary and Czechoslovakia have made the most progress in all of these areas, but they all have some way to go.

All three have eliminated the key early legal hurdles to foreign investment, namely, "who owns the property?" and "how do we get our money out?" Their privatisation laws spell out the nature of state ownership and who is entitled to sell property on the state's behalf. Profits can be repatriated thanks to foreign exchange laws that allow for easy convertibility of domestic currencies into foreign exchange.

Poland and Hungary have been criticised by some foreign investors for limiting investment opportunities by adopting a "top down" approach to privatisation, in which companies or industrial sectors are hand-picked by the government for privatisation one at a time. Czechoslovakia, on the other hand, requires all state enterprises to prepare their own privatisation projects by June This "bottom up" innovation has now been borrowed by

Poland and Hungary have been criticised for limiting investment opportunities by adopting a 'top down' approach to privatisation

Russia and important elements are being considered by the Poles and the Hungarians.

The Czech Ministry of Privatisation has also helped smooth the entry of foreign capital by developing standardised positions on key legal and environmental issues. Environmental indemnities are of crucial importance given the "production at any price" philosophy of the old regimes. The fear of inheriting responsibility for environmental sins of the past has emerged as a considerable deterrent to inbound foreign investment throughout the region.

The Czech republic has addressed the problem by creating a tough but clear legal framework for environmental responsibility. Current policy says the state will reimburse foreign investors only to the extent of their initial share purchase price, and then only for the legally mandated cleanup of conditions which could not have been disclosed prior to signature of the deal.

The Czechs are also limiting to a bare minimum the warranties which will be given to prospective investors about the financial and business condition of the companies they will be buying. These are tough positions, but they are nevertheless welcomed by foreign investors for their certainty.

Even in Czechoslovakia foreign investors complain about the length and uncertainty of the project review process. Foreign investment proposals must be reviewed by at least two ministries and the Czech cabinet, then finally negotiated with a state fund that becomes the selling shareholder. With differing mandates and priorities, these stakeholders, and their advisors, rarely speak with one voice. This results in points understood as "agreed" by one government party occasionally having to be re-negotiated to suit others who become involved later in the review process. Foreign investors, who are used to "one-stop shopping" when negotiating corporate acquisitions, often find this bewildering and frustrating.

Another complication arises from the absence of transparent guidlines from the supervising authorities involved in the review of foreign investment projects. Such guidelines would put all sides on notice as to what considerations, apart from price, will be given priority. Although investment bankers to the Ministry of Privatisation have evidently been applying a set of their own criteria, so far these have not been published or widely distributed. This means that foreign investors and target company management generally do not know what the reviewing minstires will be looking for as they prepare their proposals. It also allows losing bidders to allege that obtuse or non-commercial factors, like personal preferences and the nationality of prospective investors, affect the decision-making process.

With thousands of companies in the privatisation pipeline, Czechoslovak authorities are now grappling with the next major issue: how to govern, restructure and encourage foreign investment in the companies slated for privatisation. Foreign investment, technology and know-how will be essential for the oversized and inefficient state enterprises struggling to survive privatisation. But it is an open question whether all this will be allowed to enter quickly enough.

Initial delays might be caused by the fact that the companies will continue to be owned by a state fund at least for the next several months until voucher "bidding" ends. It is not yet clear whether the boards of these companies will be allowed to negotiate deals in the interim. If not, it remains to be seen whether the fund will be an active owner and make timely decisions.

After voucher privatisation

Czechoslovak authorities are grappling with the issue of how to encourage foreign investment in companies slated for privatisation

it will be up to the new shareholders to sort out the companies' strategic and investment strategies. These shareholders will have to overcome their own inexperience and the virtual absence of Western means of corporate governance such as proxy voting. Such problems might have been fatal were it not for the fact that most of the 8.5m voucher books issued to Czech and Slovak citizens have been deposited with a handful of institutionally managed investment funds. Nevertheless, recent regulations prohibiting funds from owning a controlling stake in any single company mean that some shareholders will have to consult and agree before decisions can be taken. How serious the resulting delays will be remains to be seen. Also unclear is whether secondary markets will develop quickly enough and will be robust enough to allow foreign buyers to buy control through the exchange.

The fate of thousands of companies and possibly Mr Klaus' voucher programme itself hinge on the answers to these questions.

Daniel Arbess

The author is lead lawyer in the Prague office of White and Case, a US law firm

CASE HISTORY: Caola of Hungary

A bitter cherry

WHEN western executives go cherry picking in eastern Europe, they look for state companies like Hungary's Caola cosmetics producer.

However, these east European consumer goods companies, such juicy targets because of their market share, are also the most perishable, for the same reason. For their market shares are generally as perishable as they are large.

Trade liberalisation has brought floods of western consumer goods imports into eastern markets, and many local companies have found their markets disappear as consumers defect to the new competitors. Without customers, such a company's worth to a potential foreign or domestic buyer can disappear just as fast.

That gives eastern Europe's privatisers – never in a very strong position – an extra handicap. The authorities and the investment banks acting on their behalf can find themselves with all the bargaining power of a stall owner trying to get rid of a load of rotting fruit. Cherries indeed.

Caola illustrates the point. Once the Hungarian monopoly supplier of personal care products such as toothpaste and a dominant producer of household chemicals, Caola still held about 80 per cent of the market in 1990.

The company appeared to be the key to a market of 10m people whose demand for cosmetics had been suppressed during decades of communist emphasis on productive industry. Caola was a desirable property for the western multinationals which began to sniff around in 1990. Then disaster struck. At the start of 1991, Hungary liberalised imports on most consumer goods and Caola was floored by western competition.

Caola's share of the cosmetics and household chemicals market, has fallen to about 40 per cent from near-monopoly two years ago. Turnover has fallen in parallel, the 1992 forecast of Ft4.3bn represents a 50 per cent fall since 1990.

Caola's technical and research expertise impresses western competitors. But the company, which as a state monopoly had no need to compete in a market, started with a handicap when it comes to marketing, advertising or packaging.

While Procter & Gamble, Colgate Palmolive and Unilever are among Hungary's top 10 advertisers, Caola spends so little that its toothpaste adverts do not even register on surveys of media profiles.

Nor do Caola brands inherit such strength that they can afford such neglect. Most are better described as names than brands. Not much attachment can be felt to a brand of washing-machine powder called Bip after the initials of the factory.

Older Hungarians may remain loyal but Caola is losing a whole new generation. Colgate meanwhile is catching toothpaste users young with Colgate bunnies on children's television and educational programmes in schools.

Mr Tihamer Gedeon, Caola's managing director, recognises that the only hope is to come under the protective wing of a western company with the financial, technological and managerial capabilities to revamp the Hungarian company's tired products.

The cruel twist is that just as Caola's growing weakness makes privatisation imperative, so it also makes a sale more difficult. Indeed, the Hungarian company may have missed its best chance.

Colgate-Palmolive bid for Caola last year but then pulled out, saying that the company's market share was vanishing.

The State Property Agency reportedly held out for \$50m, close to the asset valuation of Caola, while Colgate was prepared to pay about \$35m, much of that in investment commitments, a figure closer to the estimated market valuation.

This tension is a classic one in eastern Europe. Market value is necessarily nebulous because there has been no capital market. Moreover local officials are still often stuck in a mindset inherited from the communist past, when physical assets and production were deemed to have value independently of what anyone was prepared to pay.

It is difficult enough for buyer and seller to hit on a mutually acceptable price. When perishable consumer goods companies are concerned, they face the added difficulty that they are trying to hit a target which is moving around with the falling value of the company.

Government officials say they responded flexibly to Colgate's position. But they do not seem to have responded so flexibly to Caola's falling worth. Officials at the State Property Agency even played down the failure to agree with Colgate saying that they could get a better price by waiting.

Caola is looking for a buyer, drawing up an offer for sale and hoping for completion by late summer. But industry executives, far from thinking that Caola is worth more, doubt even that the SPA can attract any bids for the whole of Caola's business.

The western multinationals have certainly not hung around. They have been busy further eroding Caola's market share, poaching its best executives and withdrawing from joint licence agreements. Beiersdorf, the German manufacturer has taken back distribution of Nivea and other products which had been licensed by Caola.

Ominously, Caola most dynamic executives are voting with their feet. Mr Tamas Suto, Caola's go-ahead marketing head, now works Colgate-Palmolive. Western multinationals have built up local sales and distribution organisations to the extent that they do not really need Caola.

Ironically, Colgate is considering producing locally to save on import tariffs. The US company may contract out manufacturing to Caola.

Nicholas Denton

REAL ESTATE

Scarcity of stock fuels vibrant sector

OUTMODED technology, dubious management and changing demand means that east European state enterprises can often be marginal investments at best. By comparison, a scarcity of hotels, offices, shops and good quality housing and rising western demand has created a vibrant real estate sector.

Rents are often higher than in western capitals and companies are prepared to pay for accommodation in hard currency. As a result, property development is often the subtext of privatisation and the scent of asset stripping hangs in the air.

As company privatisations grind on, the importance of real estate is becoming clearer. Like the UK in the 1980s, state companies and local authorities find themselves short of cash resources at a time when their most attractive assets are in land.

The result is a scramble to sell, or more often, create joint ventures with western companies to release the capital tied up in their real estate assets.

The process has not always been smooth.

Armed with the experience of UK privatisation in the 1980s, UK based accountants initially swept into the vacuum created by the fall of communism. It was not long before real estate problems checked their progress.

In 1990, a celebrated deal was struck for the privatisation of Hungar Hotels, the Hungarian state hotel chain. On instruction from the then inexperienced and recently formed State Property Agency (SPA) the chain was valued by a western consulting company as a going concern.

However, the suggested price led to a furore about alleged asset stripping by foreigners after Quintus, a Swedish-Dutch company paid the requested $90m for a 50 per cent stake in the chain. The courts rescinded the deal after the public outcry. This and similar early deals involving former communist managements lead to a tightening up of evaluation and sales procedures. Hungary now has possibly the most rigorous monitoring policy in real estate disposal with the SPA vetting all disposals.

Privatisation, once hailed as a universal panacea for the East's economic ills, is now under more careful scrutiny as the novelty of change wears thin. It is no longer enough to slap a privatisation label on a transaction. Concern about exploitation by western property developers and investors has led to a new emphasis on competition. However, in practice, the new rules often act act as a deterrent to competition with western developers being put off by the terms of open competitions where the costs of competing are not matched by the chance of success.

> Armed with the experience of UK privatisation in the 1980s, UK based accountants initially swept into the vacuum created by the fall of communism

Arguably the single most successful privatisation policy in the UK was the sale of council houses to their tenants. The scope for this is enormous in eastern Europe as virtually every town and city is surrounded by vast pre-cast concrete estates. The risk of delinquency and social unrest cannot be overestimated in the period of hardship stemming from the economic transition.

In the UK, proprietorial pride following sale to tenants is transforming the estates, sometimes reversing their degeneration into virtual ghettos. Repeating the process in the East however requires setting up building societies and other credit systems.

The World Bank has responded to this issue and has taken up a pioneering position in Poland.

It is contributing $200m to a mortgage fund expected to total some $570m. The Polish government is to match the World Bank sum, Polish banks are expected to contribute $100m with a further contribution expected from the European Bank for Reconstruction and Development (EBRD). Initially the fund will provide credits for both construction and purchasing but the emphasis will be on new low-rise buildings at the top end of the Polish market.

In the face of high inflation the fund is expected to utilise a novel repayment formula which utilises a repayment ceiling derived from the difference between wage and price inflation. When the ceiling is reached the term of loan is extended.

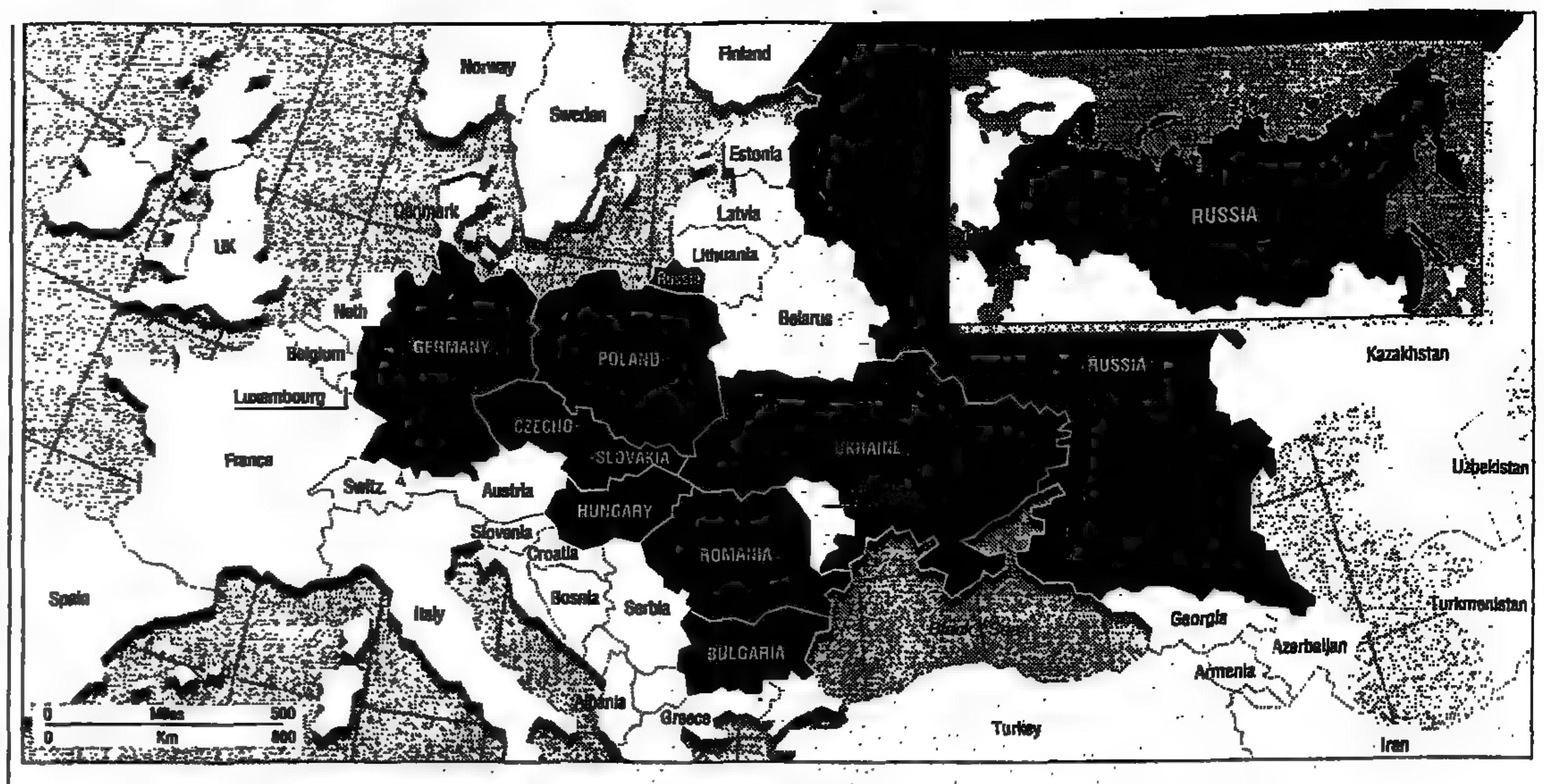
Local authorities and state companies in the UK became increasingly sophisticated in their dealings with developers during the 1980s and this would appear to be the pattern for privatisation in the East. Preferential tax environments, joint ventures, small business encouragement and development corporations are just a few of the routes ahead.

There is wide scope to make more of inner city sites which include prime office, hotel and retail locations.

Such sites give local authorities the opportunity to attract the development skills necessary to access the variety of funding sources needed for urban renewal. Schemes which integrate commercial elements with provision for small local business and housing are likely to build a political momentum of their own in the tough environment which is expected to continue for some time.

Philip Hudson

The author is a partner in East & which specialises in east European real estate



■ BALTICS

Breaking free of the rouble zone

THROUGHOUT the Baltic states privatisation is a key element in overall economic, financial and monetary policies designed to ensure their full independence from Moscow which still maintains over 100,000 troops in the region. All three states wish to break away from the rouble zone and establish their own currencies. Estonia took the lead by issuing the first Estonian Kroon last month and both Latvia and Lithuania are planning similar steps.

All three were tightly integrated into the former Soviet economy and privatisation, which is partly aimed at attracting foreign investment, is seen both as a means of reducing the former Russian influence and turning all the economies of the region in a westerly direction.

With foreign investment in mind the Baltic trio are in the process of setting up Natiuonal Investment Banks in their respective capitals on the lines of the Nordic Investment bank. KPMG, are acting as management consultants for the project which is being financially backed by the EBRD and the European Community's Phare fund.

● Lithuania, the largest and most populous of the trio, has moved fastest in the area of housing privatisation with the creation of investment vouchers for the purchase of apartments and other property. Its Land Reform Act of July 1991 provides for private ownership of land and compensation for those expropriated after the Soviet invasion.

● Latvia has the largest ethnic Russian population.

As elsewhere in the region many of the plants to be privatised are the result of all-Union investments, financed largely by Moscow.

Most are managed by ethnic Russians who also make up a large proportion of their workforce. While work is far advanced on drawing up a large volume of privatisation-related legislation the reality on the ground is rapid "spontaneous" privatisation, especially of small shops, agricultural land and other property, but slow progress in the industrial area.

● Estonia with its close linguistic and ethnic links with Finland is also banking on foreign investment to help both privatise and modernise its industrial base, especially the highly polluting oil shale industry.

It has been the first to cut its links with the Rouble zone by issuing its own currency but like the other states still has the bulk of its savings and hard currency deposits frozen in Moscow.

Anthony Robinson


Soldier of the former USSR in Vilnius where privatisation is lessening Moscow's influence

CORPORATE FINANCE

The takeover activity of the 1980s which dominated the work of merchant banks' corporate finance departments has given way to the three Rs: restructurings, rights issues, and rescues. **Robert Peston** looks at the consequences

Dreaming of takeovers

THE three Rs: rights issues, restructurings and rescues have dominated the work of merchant banks' corporate finance departments over the past year, especially in the UK.

The furious takeover activity of the mid-1980s seems an age away. Just £7.2bn was spent by companies buying UK listed businesses in 1991, marginally down from 1990, and less than a third of what was spent on UK corporate acquisitions in 1988.

In other words, merchant banks could no longer rely for the bulk of their fees and profits on providing advice in takeovers, whether recommended takeovers or hostile bids.

Indeed, the mega-bid was particularly elusive. The biggest completed UK takeover of the past year was the £1.4bn acquisition of Hawker Siddeley, the engineering and aerospace group, by the conglomerate, BTR, which was advised by the specialist corporate finance boutique Hambro Magan and by Barclays de Zoete Wedd, the securities arm of Barclays.

Only one other completed takeover, that of Ultramar by rival oil company Lasmo, was worth more than £1bn.

Both are dwarfed by the recommended £3.9bn offer by Hongkong Bank for Midland. That takeover was redolent of the good years, in that Hongkong Bank, advised by Schroders, for a while faced a stiff challenge to buy Midland from Lloyds Bank. Lloyds had unusually indicated it would put in a bid exceeding that of Hongkong only if certain preconditions were met. In the event Lloyds, advised by the merchant bank Barings, feared that it would have to pay too much to stand any chance of buying Midland, whose merchant bank adviser is SG Warburg, so it withdrew.

In spite of the lack of takeover activity, leading merchant bankers say that many of their clients are contemplating making acquisitions and that there could, therefore, be an increase in the number of bids in the coming months. The bankers explain that following April's general election in the UK the confidence of some companies has returned.

Corporate confidence has been in short supply over the past year, because many companies have been caught in the vice of large borrowings, taken on in the 1980s, and low economic growth.

Hence, there has been a sharp rise in attempts by companies to raise cash through rights issues. The London merchant bank, Robert Fleming, estimates that in 1991 £10.5bn was raised by UK companies through rights issues, which was 25 per cent more than had been raised in any single year.

The average size of each issue was relatively large at £58m, compared with £35m in the previous year. Small companies found it relatively difficult to make issues, because of the widespread fear among investors that smaller businesses were more likely to collapse in the inhospitable economic environment.

Fleming estimates that 19 of the 30 biggest rights issues were carried out by companies in order to "repair their balance sheets".

It classifies the biggest rights issue of all, the £604m one by P&O, the property and shipping group, whose merchant bank adviser was Hambros, in this category.

However, the next three largest rights issues – by Tesco, the supermarket group, Bass the brewer and J. Sainsbury the other supermarket chain – were carried out for rather less pressing reasons. They took advantage of a favourable money raising climate – the investment institutions were relatively flush with cash – to raise money for investment.

The institutions' cash position is less favourable in the current year. Nonetheless, some further big rights issues are predicted by merchant bankers.

Of great concern to investors is the possibility that one of the big clearing banks might launch a record breaking rights issue to restore their depleted capital resources. But the banks have resolutely denied that they are planning any such thing.

There is one area of traditional corporate finance business which has undergone a revival: the flotation of companies on the stock market. Though there was a tiny number of flotations in 1991 – only 54, down from 167 in 1987 – in the current period a large number of new listings involving some very big companies are occurring.

These include:

● The £465m flotation of Waste Management International, the waste disposal group, which took place in April. The sale was organised by the US investment banks, Merrill Lynch and Kidder Peabody, with Lazard Brothers, the City of London merchant bank, and Cazenove, the City stockbroker.

● The international public offering of 330m shares in Wellcome, the drug company, which are currently held by Wellcome Trust, the charitable institution. Robert Fleming is co-ordinator of that sale.

● The flotation of 26m shares in the Daily Telegraph at a price of 325p per share. This will raise £84.5m for Conrad Black's Hollinger group and puts a market value of £435.5m on the group.

● Two other big flotations, MFI, the furniture retailer, and Del Monte Foods International, the processed food manufacturer, have either begun or are due soon.

The case of GPA, however, has emphasised that such issues are not risk-free. The sale of almost one-third of the Irish aircraft leasing group's shares, valuing the company at a total of $3.5bn, was aborted after it became clear that demand from institutional investors was well below expectations. 3i, the venture capital group has also been obliged recently to announce the postponement until next year of its planned flotation.

As with Wellcome, there is an increasing trend for such share offerings to involve obtaining market listings in more than one country and for the marketing to be done globally.

The technique for pricing the shares has also become far more sophisticated.

On the other hand, flotation of small companies remains few and far between. The explanation is similar to the reason why small companies have launched few rights issues. Many small businesses have not yet recovered sufficiently from the effects of the recession for their shares to represent a suitably safe investment.

The recession also explains why so much corporate finance work has been in the form of corporate rescues and restructurings.

At the end of March, the reconstruction of Brent Walker's balance sheet and £1.65bn of debt was completed after 18 months of tense negotiations with banks. This was the biggest UK corporate restructuring. The merchant bank advising was Hill Samuel.

Brent Walker's banks and bondholders have all suffered big losses on their loans. However, in the event they were persuaded that their losses would be significantly greater if Brent Walker had been put into liquidation, receivership or administration under UK insolvency law.

UBS Phillips & Drew, the securities house, is in the process of trying to persuade bankers and bondholders owed more than £1bn by Heron, the property group, that they too would be disadvantaged if they plumped for an insolvency filing for Heron rather than a debt reconstruction.

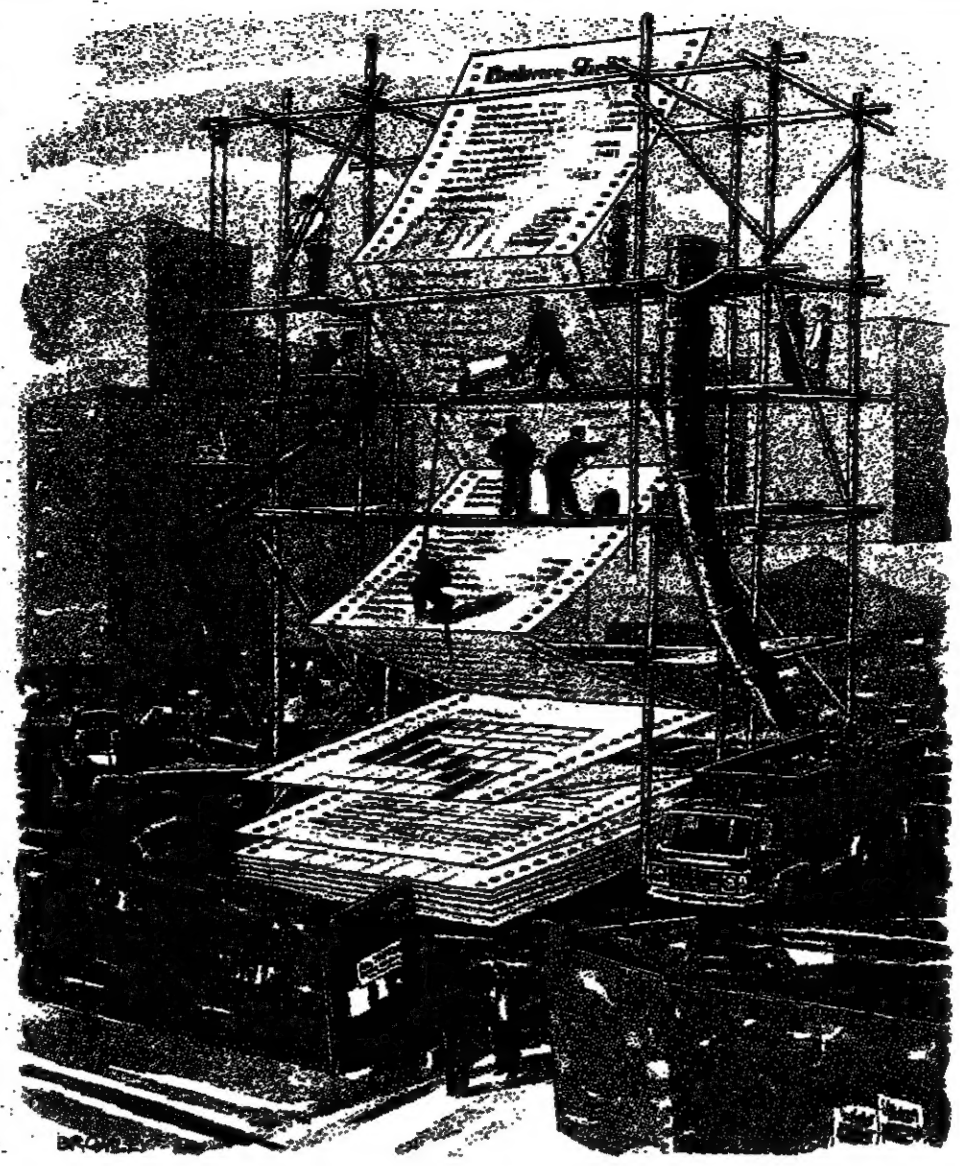
However, creditors are not always persuadable. Bankers recently opted to put Canary Wharf, the east London property development owned by Olympia & York Developments, the Canadian private company, into administration. In the case of Mountleigh, the property group, bankers took the view that their interests were best served by pressing for receivership.

Corporate financiers view this fourth "R", for receivership, as an anathema.

Once a company is in receivership, all the fat fees go to the accountants and lawyers and none to the merchant bankers. These fees are indeed very tempting.

Brent Walker, which was strapped for cash, nonetheless, paid more than £40m to its merchant bankers, accountants and lawyers in its battle to survive.

Nice work . . .



Morgan Stanley

Top of the integrated banking structure

IF ever an advocate of the "integrated" investment bank wanted to demonstrate the benefits of this structure, he would surely point to Wall Street in the 1990s. To back up his case, he could then cite a number of individual examples, but Morgan Stanley would probably be top of his list.

Between two decades – the 1980s and 1990s – business opportunities for the investment banking community have undergone a sea change. In the 1980s, money was to be made in advising on acquisitions and hostile bids; running leveraged buy-out funds, which themselves often triggered, or at least participated in the takeover frenzy; and issuing debt-based securities, such as junk bonds, to line the acquirer's pockets.

In the 1990s, the active areas have been corporate restructurings (although with fees often subject to bankruptcy court approval, these are generally less lucrative than bids); vulture investing in the securities of distressed companies; and the issuance and underwriting of new securities, often equity-based, as companies repair strained balance sheets.

The implications of this turnround are fairly obvious. Boutiques which set up as bid or LBO specialists have either been obliged to sit out the recession with much reduced earnings, or rethink their strategy. In reality, many have responded by tacking on additional lines of business – real estate services, some underwriting, restructuring expertise – in an attempt to combat

Continued on Page 4

A FLOOD of equity issues and debt refinancings is transforming corporate America's balance sheet as the US gradually recovers from the financial excesses of the 1980s.

This painful adjustment process has meant a sharp drop in the frenetic takeover and leveraged buy-out activity which characterised the 1980s, and large increase in corporate bankruptcies.

In the 1980s leverage was fashionable and credit was easy, encouraging many US corporations to take on more debt than they could comfortably service when the economy turned down.

The recession of 1991 therefore forced many companies into the protection of the courts under Chapter 11 of the US bankruptcy code, which gives them a breathing space while they try to restructure their balance sheets and substitute new equity for debt. Some 23,989 companies filed for Chapter 11 in 1991, compared to 20,783 in 1990. It was the highest total since 1986.

Although the economy is now staging a modest recovery, and the wave of bankruptcies seems past its peak, some substantial Chapter 11 filings may still be to come.

The recession helped burst a speculative property bubble, leaving many of the nation's largest banks nursing

■ US: in the 1980s credit was easy — but things have changed

Bout of painful adjustment

extremely large portfolios of non-performing commercial real estate loans. That in turn has discouraged them from making fresh loan commitments, although the resulting so-called credit crunch appears to have been substantially ameliorated by increased lending by foreign institutions.

Even relatively healthy companies with substantial debt burdens or operating results hit by the recession, have needed to issue equity to shore up their balance sheets or their ratings with the leading credit agencies.

Happily for them, the tail end of the recession produced a bull market in shares as Wall Street anticipated the rising earnings which an economic recovery would bring.

The result has been record stock market levels and an ideal climate for new equity issues. Last year total US equity issues reached a record $56bn, almost three times the level of 1990, and in the first three months of this year the total, including preferred stock was $29bn.

Among the most prominent issues was General Motors' recent $2.14bn issue, the largest stock offering ever in the US excluding a controversial $2.8bn rights offering to investors by media group Time Warner in 1991.

General Motors, which reported $4.5bn in net losses in 1991 and had suffered an erosion of its credit rating, needed the new equity both to sustain its heavy programme of investment in new models and to bolster the credit rating.

Takeovers are still being done, but they tend to be agreed rather than hostile; be within a sector and have a strong industrial logic

The Time Warner offer was unusual for the US, where rights issues are rare, and the company's first proposal ran into a wall of investor objections. Its sliding subscription price, which depended on shareholder demand, was judged to be coercive and had to be changed to a more conventional fixed price offering.

The past year has also seen a rise in company flotations on the stock markets. The amount of money raised in so-called initial public offerings totalled $16.3bn in 1991, compared to just $4.6bn the year before and a record $18.3bn in 1986.

Many of these issues have been of companies which were the subject of leveraged buy-outs in the 1980s now returning to the public market place and allowing buy-out investors to cash in their stakes at extremely attractive price/earnings multiples.

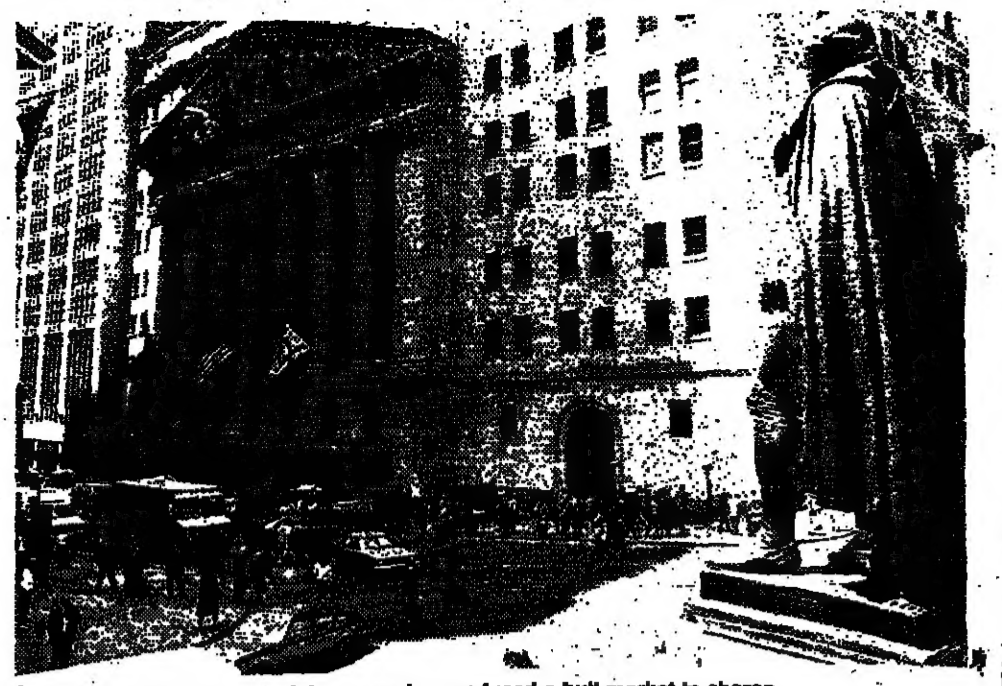
The recession has meant a sharp drop in US interest rates. This has prompted all companies to reshape their debt portfolios to lower their servicing costs.

The US Securities Industry Association reckons that 35 per cent of all corporate debt issued in 1991 was due to companies calling in their outstanding fixed income obligations, whether bonds or bank loans, and issuing new debt with lower yields.

The result has been record issuance of corporate bonds, which totalled $507bn last year, up 74 per cent on 1990. Much of that was in the form of asset backed securities, which allow banks and other deposit-taking institutions to remove liabilities from their balance sheets and more easily meet regulatory capital requirements. The flood has continued into this year, helped by the Federal Reserve's cut in interest rates just before last Christmas.

Asset-backed securities apart, most of the new issues have been of investment grade quality, although there has been a modest revival of interest in junk bonds — the high-yielding securities, issued by companies below investment grade, which provided the fuel for the 1980s takeover spree. Last year saw $13bn of junk bonds issued, compared to $40bn at the 1986 peak, but in the first quarter of this year alone some $7bn was sold.

The much diminished market for junk bonds has taken the heat out of the takeover business, since corporate raiders no longer have the financial clout to launch hostile bids against vulnerable targets. Recession, furthermore, has forced companies to concentrate more closely on the efficient running of their existing businesses, rather than indulge in empire building.



On Wall Street the tail end of the recession produced a bull market in shares

Takeovers are still being done, but they tend to be agreed rather than hostile; be within a sector and have a strong industrial logic, rather than being propelled by financial considerations; tend to involve more equity, relative to debt, than in the 1980s; and involve mainly US companies, rather than foreign bidders.

Much of the activity is concentrated in three sectors undergoing restructuring — defence, which is responding to the cuts in Pentagon spending; telecommunications, which is consolidating; and banking, which is involved in a lengthy merger process which will cut the number of institutions in this overcrowded and inefficient sector.

Martin Dickson,
New York

■ JAPAN: M&A activity has been cooled by the downturn

A pause for restructuring

The fever associated with Japanese mergers and acquisitions activity in the 1980s has been cooled by the collapse of Japanese real estate and stock prices.

With the downturn of the domestic economy and sharp falls in earnings, Japanese companies have become more concerned over domestic core businesses and have started to concentrate efforts on internal restructuring.

According to Daiwa Securities, the total number of transactions fell by 34.3 per cent to 516 in 1991, while total value of deals fell 66.6 per cent to Y1,186.5bn. At the same time different perceptions have also brought about changes regarded as improbable in the 1980s. Foreign purchases of Japanese companies — considered a dream at the height of Japan's bull market — are increasing sharply.

"In the late 1980s, 75 per cent of the purchase cost of a Japanese company would be the real estate value," says an investment banker at Credit Suisse First Boston. With share prices around 60 per cent below their bull market peaks and land prices halved Japanese assets have become a realistic opportunity for overseas investors.

Foreign purchases of Japanese companies last year fell to a total of 13 deals, but grew by 2.7 times in value to Y58bn. In the first three months of this year, seven deals have been completed, with the value totaling Y10.9bn, up by 3.8 times from the previous year.

"The demand from foreigners is increasing, but the number of Japanese companies available is currently very low," says Mr Yoshiharu Ohi, head of global marketing at Daiwa Securities. But he adds that a further fall in share prices and restructuring within industries could increase opportunities.

Foreign companies with international businesses which have comparative advantages over Japanese counterparts have expressed interest in buying into Japan. "The trends are apparent in sectors where there are no global Japanese companies," says Mr William Nichol at Barclays Bank.

Pharmaceuticals and chemicals are areas where the western companies are showing interest. Japanese drugs and chemical companies lag behind their western counterparts and the expanding Japanese market provides incentive for foreign companies.

Last year Monsanto of the US acquired 12 per cent stake in Hokuriku Pharmaceuticals for Y14.5bn, while Ciba Geigy took 20 per cent stake in a small agri-chemical maker.

Foreign companies are buying into Japanese distributors to overcome structural difficulties. Hasbro, the US toy maker, recently acquired Nomura Toy, a privately run toy design and marketing company. Pfizer, the US pharmaceutical and chemical group, also said it would buy Koshin Medical, a privately owned distributor of medical equipment.

Mergers and acquisitions have slowly become accepted among the Japanese as an option for better business. Mr Keiichi Kawakami, deputy general manager of Bank of Tokyo's corporate advisory division, says Japanese companies are no longer "allergic" to them.

As for mergers and acquisitions of foreign companies by Japanese corporations, activity has been subdued. Last year, the number of transactions fell by 44.3 per cent to 258, while the total value fell 78.6 per cent to Y683.4bn. The absence of big deals, such as Sony and Matsushita's acquisition of US film studios and Fujitsu's takeover of International Computers Limited, has deflated the total value of transactions. "Japanese companies are coming to terms with investments made in the 1980s," says Mr Kawakami at BOT. They are restructuring foreign acquisitions and some are ready to sell non-core businesses.

The takeover of Firestone, the US tyre maker by Bridgestone, the leading Japanese tyre company, is an example of the many poor purchases made by Japanese corporations. They are also reviewing overseas acquisitions, especially real estate-related investments. In addition, the sharp rise in the cost of capital has discouraged a return to the international market.

Nevertheless, Mr Ohi of Daiwa says that many companies still indicate interest in deals which would satisfy strategic needs in their core businesses and "negotiations are quite active".

While Japanese companies are still keen to invest in south-east Asia because of the region's high growth potential and low labour costs, interest in eastern European and Russia has been low as a result of unfamiliarity and the higher risks involved.

Mr Ohi points out that Treuhandanstalt, the German agency for privatising former East Germany's state enterprises, has elicited little interest from Japanese companies. "The Japanese fear the former eastern German companies could lack basic functions of a capitalised company," he adds.

Among Japanese companies, however, the fall in asset prices and the sluggish economy have heightened interest in mergers and acquisitions. Although the total number of deals fell by 19.7 per cent to 245 in 1991, their value rose by 31.5 per cent to Y445.1bn.

The reas on was the increase in rescue-type deals involving companies facing severe financial problems as a result of extensive investment in the stock and real estate markets. Traditionally, companies in trouble have been salvaged by their main banks. But the latter have not been able to cope with the number of companies struggling with mounting debts, since the banks are themselves also grappling with a rise in non-performing loans.

Ishihara Construction, a listed company, was burdened with expanded debts arising from loan guarantees extended to Kyowa, the steel-processing company, which failed with outstanding debts of Y150bn. It was bought by Misawa, a subsidiary of Misawa Homes, the housing company.

Aside from corporate rescues, Sanwa Bank says that the number of companies wanting to buy quality companies at cheaper prices to strengthen core businesses have increased. Meanwhile, the traditional practice of Japanese companies avoiding the use of financial advisers for transactions is gradually changing as the growing complexity of deals and need for corporate information has provoked a shift in attitudes.

"The role of financial advisers will become more important since Japanese companies are growing to understand the importance of information," says Mr Ohi. He adds that the number of advisers will increase, as will their roles.

Emiko Terazono,
Tokyo

■ PROFILE: Brent Walker

Frightening moral tale

THE story of Brent Walker's *financial rescue* is a frightening moral tale. At the end of March the leisure and property group finally completed a £1.65bn refinancing package with its *multitude of banks*, the largest such deal ever seen in the UK market.

The refinancing involved a £250m debt-for-equity swap, giving *Brent Walker's banks* over 50 per cent of its shares and an agreement by the banks to roll up or take in preference shares much of their interest *payments. The aim is that* by the end of 1997 there should be sufficient value in Brent Walker's businesses to put its balance sheet back on to a more normal footing.

There are many lessons to be learnt from the case and other *companies entering the refi*nancing process would do well to follow them.

The first lesson, though, is too late for many of them. Brent Walker and its banks should never have got into the mess that they did. It is hard to *apportion blame between a* company which over-expanded in what now seems a foolhardy way and the banks that were only too willing to finance the headlong rush.

Under Mr George Walker, its former chairman and chief *executive*, Brent Walker had wheeled and dealed its way to a £1.3bn debt mountain borrowed from a total of 60 different banks. There were a multiplicity of lenders for acquisitions such as the £685m purchase in late 1989 of William Hill, the betting office chain.

In many ways this reflected the break-down of old-fashioned relationship banking in *the 1980s as the competition* between banks to lend became frenetic. It meant that banks were lending millions of pounds without seeing the total picture - not knowing what Brent Walker had borrowed from other banks.

Nor did they make sufficient effort to find out about the economics of the businesses they were lending on. Bankers were taken on a grand tour of the group's property developments, numbers were flung at them and they apparently made little attempt to work out the projections – for example, on likely sales of apartments at *the holiday complexes*.

Mr Richard Heley, head of corporate finance at Hill Samuel, the merchant bank which advised Brent Walker through *the refinancing, suggests that* banks should always take security for such loans. The security itself may not prove much comfort when property values fall, but obtaining it would force the banks to check titles to properties and planning consents, *get independent valua*tions done and so on.

The second lesson is to avoid relying on uncommitted loans. When it came to the crunch, Brent Walker suddenly found that money which it thought was available was not. That *threw the group on the mercy* of the money markets where it scooped up loans, bringing a number of banks into its circle of lenders late in the day.

Another piece of advice comes from Mr Nick Lyle, the partner of accountants Touche *Ross*, who headed the team which prepared a report on Brent Walker's business for the banks. He says that many businesses fail because, when trouble strikes, they do not go to their banks early enough.

Brent Walker's problems had been mounting throughout 1990, but it attempted to paper over the cracks, by announcing a £100m convertible bond issue in September of that year and *in the same month publishing* interim results which are now the subject of a serious fraud office enquiry.

It was not until Hill Samuel, which was only appointed in September 1990, started working on the document for the bond issue that it became apparent how severe the group's problems were.

Then it was a matter of getting a standstill agreement with its banks as quickly as possible. A standstill is the first step in a refinancing and essentially stops everything while a more detailed plan can be drawn up.

The standstill was tied up in a matter of weeks. But a couple of serious mistakes were made in formulating it. First, although it called for a *strengthening of the board*, the agreement did not demand that Mr Walker leave the group. The consensus now is that an entrepreneur who has built up a business is more likely to hinder than help a rescue.

A second error was to grossly underestimate the time required to do the more detailed refinancing. The standstill was signed in November 1990 and stipulated a final solution to be agreed within three months. In the event it was to take 16 months. *In the meantime, interest out*standing accumulated adding to the debt and the group needed fresh financing to continue capital spending.

The main difficulty in the Brent Walker refinancing was getting agreement between a disparate group of bankers with different interests and exposures. None were willing to give anything up for a general settlement.

Mr Heley acknowledges that it would be easy to be depressed by the experience. He says the basic principles of the refinancing were thrashed out in four-to-six weeks, but the banks' minor tinkering with the outline agreement took as many months.

The only reason the refinancing could succeed was that *underneath all the debt Brent* Walker had two businesses which were capable of holding out hopes of the group trading its way out of its financial difficulties. The pub business in particular was vital. While the discussions with the banks continued the group was working to build a chain of pubs leased from the large brewers, which would form a cash generating subsidiary.

The whole exercise has cost the group £53.8m in fees – nearly three times its residual *market capitalisation. It has* also left a company with a pro-forma, post-restructuring, balance sheet carrying debt of £1.5bn and negative net worth of £177.1m.

Maggie Urry

■ PROFILE: GPA

Good lesson in going public

SINCE the GPA Group aborted its $800m flotation its complex share structure has being cited by investment bankers as an example of *what not to do when going* public.

GPA's planned flotation was billed as a unique offering; a simultaneous listing in New York, London and Dublin by tender offer to give the issue maximum flexibility. There was to be a placement of shares in Japan.

In order to increase competition between institutional shareholders around the world the issue was not anchored in any single market. The structure was seen to have an inbuilt guarantee against the possibility of slack demand in any *one of the* four markets.

If institutional shareholders in any one market appeared to be ambivalent about the issue – as they turned out to be – the lead manager in any given market could cite strong demand elsewhere in an effort to drum up support for the issue.

There was a normal book-building exercise. Nomura International as global co-ordinator, Merrill Lynch, Goldman Sachs and Salomon Brothers in the US and Schroders and BZW in the UK, gathered indications of the number of shares institutions wanted. The book building exercise took place within a price range of $10-$12, *following a 1-for-1 scrip issue*, but the actual price would not be fixed until the investment bankers had clear figures of demand in each country.

According to GPA demand was so strong that 10 days before the new shares were due to start trading it increased the total amount on offer by 5m to 85m. The aircraft leasing company said this was because of a surge in interest from retail investors. But in the early hours of the *day the new shares were due to start trad*ing the group was forced to pull the issue.

GPA had hoped to sell 80m shares worldwide, with 30m in the UK and Ireland, 20m in the US, 15m internationally and 15m in Japan. Instead, there was only demand for about 50m shares, with 22.93m coming from retail investors in Japan.

Dr Tony Ryan, chairman, asked his advisers to look at new options for salvaging the offer. But their recommendation was the same: the offer had to be pulled. So what went wrong?

There were considerable *uncertainties* surrounding an aircraft leasing company trying to raise money in a market unconvinced that the recession in the airline industry had bottomed out.

Putting these on one side, the offer structure was a significant contributory factor to the collapse of the flotation. There were fundamental weaknesses with the offer structure.

● The sale was not anchored in any one single market. So instead of London or New York institutions driving it, they stood back until they were certain that there was demand in other markets.

When it became clear that demand was weak *in the US the offer* lacked a home market to soak up the unwanted shares. The Wellcome share offer, for example, is firmly anchored in the UK.

● When demand from the US market collapsed it adversely affected sentiment in the rest of the world. So far from increasing competitive pressure the offer became doomed once it became clear that there was no demand for the shares in the US. British institutional shareholders, which *had expressed an interest in buying the* shares, fell away once they heard that US institutions were not interested.

Mr Tim Pettee, vice president of Alliance Capital, which manages about $60bn of pension and *mutual fund assets*, said: "It later became obvious that advisers in one country, where the demand was weak, were talking up demand in another country where demand was equally weak. In reality there was very little demand anywhere."

● Although the tender offer was chosen to increase flexibility, the price range and the maximum number of shares to be sold could not be changed once announced.

Some commentators believe that had the shares been sold by way of a US style *placing in the UK, like the offering of* Waste Management International's shares, it would have been easier for the advisers to have either reduced the price or the number of shares on offer since a placing is not subject to the some constraints as a tender offer.

GPA is still commited to coming to the market. With £12bn worth of firm orders for aircraft from manufacturers over the rest of the decade, the company needs new equity. With net assets of less than $2bn and borrowings of more than twice that level GPA cannot go on increasing its debt without finding new shareholders. Nomura is looking at several options for doing that.

Roland Rudd

■ PROFILE: Nestlé-Perrier

Saga inflicted deep wounds

STUDENTS of cross-border takeover activity in continental Europe fall broadly into two camps. One holds that national barriers are inexorably crumbling in the face of global competition, technology and mobile capital. The other argues that the barriers are not really falling at all, but simply changing shape.

Both schools can claim vindication in the recent struggle for control of Perrier, France's largest mineral water company, in which Nestlé, the Swiss food group, triumphed over the Agnellis, Italy's most powerful industrial dynasty.

The affair is one of the most complex and controversial battles in European takeover history. As well as splitting the *French business establish*ment, it inflicted scars on Italian pride which were only partly salved by the Agnellis' success in ultimately extracting a handsome capital gain.

The saga began last year, when the Agnellis persuaded the Franco-Greek Mentzelopoulos family to sell them 34 per cent of Exor, a holding company which owned 35 per cent of Perrier. With French allies, notably the Saint Louis paper and sugar group and the Worms family holding company, the Agnellis gained control of almost half Perrier's shares and voting rights.

Then things began to go wrong. Their first mistake was to launch a bid for just two thirds of Exor in November. Though partial bids were then legal in France, the offer outraged some of Exor's minority shareholders, including Compagnie de Suez, the large industrial group, which complained it was being short changed.

The Agnellis hastily raised their bid. But it was too late to pacify Suez, which turned to *Nestlé to act as* a white knight. The Swiss company also received backing from other influential French interests, notably BSN, the country's largest food company and other main mineral water producer, and Lazard Frères, the investment bank which dominates France's mergers and acquisitions market.

To have stirred up such powerful opposition was a remarkable feat, given the Agnellis' close personal and business links with both Mr Antoine Riboud, BSN's chairman, and Mr Michel David-Weill, chairman of Lazard. Indeed, Lazard had previously used its influence to help the Agnellis acquire French assets which have made them the country's largest foreign investor.

Not only did the Agnellis consult neither BSN nor Lazard in their stealthy approaches to Perrier. They actively antagonised them by hinting unwisely that their next target was BSN, in which Lazard had helped them acquire a minority stake.

Their biggest blunder was perpetrated by an ally, Mr Jacques Vincent, chairman of both Exor and Perrier. In an effort to strengthen the Agnellis' hand, Mr Vincent illicitly transferred to Saint Louis a 13.8 per cent stake in Perrier which was frozen in the mineral water company's treasury. *Challenged by Nestlé and Suez*, the deal was annulled by a French court, depriving the Agnellis of almost a third of their Perrier votes and paving the way for their defeat.

It is tempting to see the story as a threatened French business establishment ganging up against a hostile intruder. But though true in part, that is too simplistic. After all, the Agnellis, with their influential local connections, started out more as insiders than Nestlé, which is not even headquartered in the EC and whose bid for Perrier was hostile.

In reality, a combination of arrogance and miscalculation led the Agnellis to misplay their hand. They both mistook their insider status in France for a licence to trample on tribal loyalties, while underestimating the degree to which traditional French capitalism had moved closer to the Anglo-Saxon model.

The real winner was the country's fledgling system of stock market regulation, intended to provide greater transparency and equity, which was aggressively invoked by Nestlé and its *allies and ultimately* was decisive in the Agnellis' undoing.

The ironies of the situation are manifold. For the tactics the Agnellis employed to win control of Perrier were barely distinguishable from the stealthy, behind-the-scenes manoeuvring which has traditionally characterised the *exercise of power by France's* business establishment.

It is paradoxical that prominent members of that establishment should have seized on rules designed to end such practices to defeat the Agnellis. But the fact that they did so has probably done more to entrench the rules, and their underlying objectives of openness and fairness, than could have been achieved by any number of EC directives or government legislation.

Guy de Jonquières

FINANCIAL RESTRUCTURING

Profits in the recession

WHILE the accountancy firms are proud to trumpet their growing involvement in corporate finance, they keep deathly quiet about one of its most profitable aspects during the recession: financial restructuring.

Management buy-outs take place in a spotlight of publicity cultivated by the parties involved. Mergers and acquisitions are often celebrated with elaborate tombstones, and the case made in widely-circulated glossy brochures.

Only rarely do financial restructurings hit the headlines. News that a company is in discussions with its bankers about rescheduling debt or reorganising its operations is likely to destroy confidence, hit the share price and often precipitate its collapse.

"It's desperately important to keep it quiet or else the company will suffer," says Mr Richard Reid, a partner in KPMG Peat Marwick's corporate turnround department. "You can't shout about successful restructurings from the rooftops."

Some companies – such as Maxwell Communications Corporation and Olympia & York – began with work for corporate restructuring divisions, and ended up in insolvency proceedings.

However, these examples create a distorted impression. Peat's corporate turnround department, for example estimates that 80 per cent of the restructurings to which it has been appointed have survived as going businesses.

Heron Corporation – on which both Price Waterhouse and Peats worked – is one example of a company which

It will be many months yet before current restructuring work starts to decline

has so far managed to cling on. Indeed, the company needed to communicate with its bondholders, and even cultivated press coverage to help put its case clearly and sympathetically.

Mr Richard Stone, head of corporate finance at Coopers & Lybrand, lists Berisford, LEP and Vestey Group alongside MCC as companies which at least passed through his department. Other recent high-profile examples among the leading firms have included Brent Walker and News Corporation.

Insolvency fee income has helped keep the total income buoyant in accountancy firms, which have seen demand for consulting and other professional services slump in recent months. Restructurings have done the same in microcosm for some of their corporate finance departments, acting as a counter-cyclical source of billings during the dearth of merger and acquisition activity.

Nonetheless, the restructuring divisions are keen to separate themselves from any taint of insolvency. Coopers, for example, moved its function into an entirely separate unit five years ago, linked to its corporate finance department.

Mr Stone says the merchant banks initially became involved in restructuring work themselves, but soon lost interest. "They thought they had come across a bonanza, but realised the work was much more long-winded than deal-making, and less rewarding than they first thought," he says.

Restructuring is still a relatively new industry. In spite of growing billings, Peat's division, for example still only numbers five partners. That compares with just one about a year ago.

In the previous recessions in the 1970s and early 1980s, it was far less developed. That has changed because of the growing sophistication of lenders, financial instruments and corporations. "Life was rather simpler back then," says Mr Richard Mead, head of corporate finance at Ernst & Young.

Changes include the emergence of large syndicates of banks, a plethora of new types of loans, and the increasingly international and diverse operations of companies.

Mr Richard Stone believes the proportion of companies surviving is probably marginally better than in the previous recession, fuelled in part by a concern about the value of their assets if they do call in the receivers.

"The approach of the banks has been that bit more constructive," he says. "You only ever read about the ones where banks appear to be difficult. On many occasions they are very supportive."

He argues that management teams are still too reluctant to bring in outside advice earlier enough. "They don't want to go to the banks and tell them about their problems," he says. "They leave it too late."

One of the reasons has been that during the intense competition of the last few years, traditional banking relationships with clients broke down. As Mr Jerry Acher, of KPMG Peat Marwick, puts its: "In the 1980s many company treasurers searched for the lowest one-sixteenth of 1 per cent interest to get borrowings down to a minimum. That upset many close relationships."

The typical restructuring, according to Mr Reid, begins with a referral from a bank. A company may have a short-term problem paying its debts, or be anticipating difficulties in the medium-term.

The accountants set about understanding the business, and particularly the elements contributing to cash flows. They consider how to deal with any short-term debt problems, and then analyse the operational aspects of the business. Finally, they will present a plan, which might include cost-cutting and reorganisation options for the company, and debt-equity swaps and rescheduling for its bankers.

He says that a continuing problem is inadequate management information systems, or systems created during periods of growth and not adjusted to

'It's desperately important to keep it quiet or else the company will suffer'

be attuned to the downturn. Insufficient sensitivity to cash flow problems catches many managers unaware. And many directors have no experience of senior managerial jobs during a previous recession.

The accountants working on restructuring projects are sensitive to the charge that they are having to make good the wrongs of the corporate finance excesses during the 1980s. "No-one could have anticipated a recession of this length and severity," says Mr Acher.

Since loan agreements were drawn up, the prolonged recession has hit many companies' ability to pay.

That might reflect rises in interest rates, falls in share prices against which loans may be secured, or a disposal of core businesses to help keep the company afloat and sustain cash flows.

It might come as a result of financial agreements which were staggered, so that new, harsher repayment requirements are only just being triggered months or years after the original agreement was prepared at a time of economic growth.

On one thing the accountants are all agreed. It will be many months yet before their restructuring work goes on the wane.

Andrew Jack

THE ACCOUNTANTS' VIEW

A lot of talk but not much action

ACCOUNTANTS venturing into corporate finance work in the UK have been hit by the recession like their banking competitors. But it would be difficult to work that out by talking to them.

"The UK market is very, very depressed," says Mr Howard Hyman, head of corporate finance at Price Waterhouse. "But we have been highly successful."

Mr Richard Stone, from Coopers & Lybrand, agrees: "There's a lot of talking but not much action in mergers and acquisitions," he says. "But we are at about the same level as last year."

Mr Richard Mead, of Ernst & Young, says: "It's going to be a dull summer. Anyone who says the market is OK is not telling the truth . . . but the gloom and doom can be somewhat overplayed."

The apparent contradictions in the statements of these men – and most of their competitors – is partly explained by the niche strengths of their firms, of which they make great play. For Price Waterhouse, for example, that means a strong European network which helps offset the downturn of business in the UK.

"No doubt all our competitors talk about having a genuinely integrated European network, but we are the only

'We are fishing in the same pond . . . but we are trying to make the pond bigger'

people who really do have one," says Mr Hyman. "We are very federal. That has fantastic advantages, by allowing us to run as one company with access to an enormous number of contacts."

Mr Jerry Acher, head of corporate finance at KPMG Peat Marwick, says business has been "surprisingly resilient". He says the firm made £50.3m in the year to last September, and is projecting £55m-£60m this year. That was generated by more than 300 professional staff around the country.

Peat's sources of revenue in recent months have included work on overseas privatisations such the national electricity grid in Argentina, and a series of projects in eastern Europe. Even in the UK, Mr Acher says the firm has continued to strengthen. That has partly been through the provision of advice on new issues and management buy-outs, but also because of "forensic" accounting, financial restructuring of businesses in difficulty, and bid defence work for a number of well-known target companies in recent hostile takeover battles.

For most of the firms, the lower end of the market has provided most of their work. Mr Stone says the average deal for Coopers last year was £16m. "We don't see the £500m disposal as in our realm," he says.

The size of deals done by the firms has shrunk in the last few months. Mr Richard Mead of Ernst & Young, which generated about £7m in the year to April, says the average transaction has reduced to £4m-£5m, from about £10m two years ago.

He says the firm has been increasing the number of dedicated corporate finance offices in regions around the UK to help lift new business. It has switched to different services more suitable to the recession, including financial restructuring.

Assessing how the firms are doing is not easy. If they have brought nothing else to the corporate finance industry, they have certainly come well-armed with the skills of creative accountancy.

Mr Hyman refuses to provide details of the income generated from PW's corporate finance arm. He argues that it is not comparable with the rival firms, which include activities other than "straight corporate finance" work such as the due diligence conducted on acquisitions to verify stated financial information.

Certainly due diligence in Coopers lifted its "pure" corporate finance income from £35m to nearly £30m last year, according to Richard Stone. But Mr Acher defends the inclusion of these activities in KPMG's corporate finance division. "They all have a very similar skill base," he says. "It's very important to have a common approach to marketing, development and quality control."

In spite of the difficulties of obtaining objective data, it does seem that the accountants have made powerful inroads into the corporate finance market, with substantial and growing billings. That has not helped endear them to other parts of the corporate finance world.

They have struck a raw nerve, which has become particularly raw during the recession. Disgruntled bankers and other observers of the industry criticise the encroachment. They moan privately that accountants are not well-trained to be deal-makers – it is quite a transition from the cautious analytical examiner of books to the bravado of the risk-taking wheeler-dealer.

They suggest that the accountants do not have the contacts at sufficiently high levels within a large enough number of organisations to provide the best service. They question whether all too often deals claimed by the accountants are simply contracts on which they have "piggy-backed" on to bankers by providing some modest technical advice, rather than as lead advisers.

These are criticisms that the accountancy firms have heard all too often. "The original entrance of the accountants into corporate finance a few years ago was over-hyped, but misdirected," says Mr Mead. "But the firms are now well established. It is just not true today."

Mr Stone agrees: "There is an element of tension, but I don't think it is as great as it was. The bigger merchant banks see there is plenty of

'The UK market is very, very depressed . . . but we have been highly successful'

room for us all. The smaller end sees the firms as a threat."

Mr Hyman says the accountants have a very large client base to leverage, provide independent advice, and do provide the skills required.

"Where do most banks recruit financiers from? The accountancy firms," he says.

Indeed, Mr Acher says: "I hope we continue to lose people to the merchant bankers. It is absolutely vital that we continue these relationships." But he defends the basic training his firm offers: "The chartered accountancy qualification is an important base. It teaches you care, and a detailed approach."

He is dismissive of the suggestion that the accountants are depriving the bankers of business. Accountants do not have access to external capital, and are unlikely to move into very large deals. Smaller businesses, which might previously have tried to conduct deals without so much external professional advice, are more of a target. "We are fishing in the same pond to some extent, but we are trying to make the pond bigger for everyone," he says.

AJ

A venerable British bank has a 40% stake in Dillon Read

Barings' transatlantic leap

THE US remains the world's biggest market for corporate finance. Yet it remains virtually closed to foreign banks, which have never prospered in the fiercely competitive atmosphere of Wall Street.

Barings, one of the longest-established merchant banks in the UK, finally decided this year that it could not remain on the outside any longer.

Its decision to buy 40 per cent of Dillon Read – a Wall Street firm whose size and blue-blooded culture makes it roughly comparable to the British bank – marks one of the most ambitious attempts yet to build a transatlantic corporate finance business.

Barings has spent the past two decades developing an international presence from scratch. In the the early 1970s it opened offices in Asia and in the 1980s set up in the leading European markets. In these less-developed corporate finance markets, it managed to gain a foothold. But the 12-strong corporate finance team it had built up in New York by the end of the 1980s was paltry in comparison with established Wall Street houses.

"Several of our clients did deals in the US, and did them with US investment banks," says Mr Nigel Melville, a director of Baring Brothers.

The decision to take a stake in Dillon Read was partly opportunistic: the US bank had been in the process of negotiating a buy-out from Travelers, the insurance company, at the time. But it marks a big risk for a bank which had survived two centuries without tying up with any other house.

The nature of the link marks a compromise. On the one hand, the banks will remain largely separate. Both will continue to be run independently and each will keep its own name. On the other hand, the two sides hope to benefit from being able to make joint pitches to win business and from co-operation on transatlantic deals.

The glue that is meant to hold this liaison together is a mixture of financial self-interest and, both sides hope, a close working relationship. A fee-sharing arrangement has been negotiated which is meant to encourage the banks to refer deals to each other, although no details have been made public.

Getting people on each side of the Atlantic to work together will not be easy. Ambition, an addiction to secrecy and the fear of jeopardising a relationship with a client make corporate financiers loathe to share their best clients, even with people working in the same bank. Sharing them with people across the Atlantic will take a big leap of faith.

Barings counters by pointing to the productive relationship that exists between Lazard Brothers in London and Lazard Frères in New York, two banks which operate independently (it denies that it has modelled its own alliance on the two Lazards). However, Barings admits that managing the relationship presents a challenge. "The possibility of dropping a ball between two firms that are co-operating is obviously greater than within a single firm," says Mr Melville.

In an attempt to avoid problems of overlap, a single director will be responsible for the relationship with each client.

Barings' corporate finance office in the US has been closed down (with two of the 12 staff transferring to Dillon Read). One of the British bank's directors has moved in with Dillon Read to act as a link between the two sides. In London, the US bank has shut its corporate finance unit, one of its managing directors (Mr Christopher Kemble) becoming a Barings director and the other (Mr Lorenzo Weissman) moving into the British bank's offices.

Meanwhile, the two banks' securities arms continue to operate separately. That means, for example that Dillon Read salespeople in London continue to sell some European shares to their clients, in competition with Barings (though US equities comprise the bulk of the business).

There are no plans to bring the securities sides closer, Barings says. Publicly, no extra business has yet flowed from the corporate finance link. That partly reflects the time spent so far bringing the two businesses closer, as well as the time lag in developing deals jointly.

It is also partly the result of a sluggish takeover market. Only when the transatlantic takeover market hots up will it become apparent whether the Barings/Dillon Read tie was worth the gamble.

Richard Waters

Integrated investment bank

Continued from Page One

the dearth of bid work.

For the large integrated houses the task, superficially, has been simpler. After all, the downturn in bid work has been largely offset by the upturn in underwriting activity. But managing the turnround has been no simple assignment.

Morgan Stanley, one of the largest blue chip Wall Street houses, probably exemplifies the point better than any. To look at the bank's bottom line, business has been bumpy but, under the circumstances, remarkably well-sustained. After-tax profits for 1987 (the year stock markets crashed worldwide) were $230.9m. They then recovered to $394.6m in 1988; soared to $443m in 1989; dipped back to $270.4m in 1990; and then hit $475.8m last year.

Overall, the investment banking division appeared to echo this pattern. Here, revenues topped the $946m mark in 1989; slumped to $652.3m in 1990; and recovered to $823.5m in 1991. But it is the split in the investment banking division's figures which tell a much more meaningful story.

In 1989, about $380m – less than half the the $946m total – came from underwriting activities, and the remainder from financial advisory work. In 1991, by contrast, two-thirds of the $823.5m figures derived from underwriting activities, the rest from advisory work.

This switch in business mix has meant a rearrangement of staffing, and in Morgan Stanley's case a fair number of top management changes.

According to Mr Robert Matschullat, head of investment banking, the head count in his division has remained flat. It totals about 668 worldwide, compared with about 680 five years ago. But Mr Matschullat acknowledges that there have been significant reductions in certain areas, such as mergers and acquisitions.

To an extent, expertise in mergers and acquisitions (M&A) can be switched to restructuring work. Individuals who advised on bids in the 1980s the reasoning runs, know the same client companies who now wish to restructure their finances. Neverthless, only six months ago, the bank announced the dismissal of 45 investment bankers, 6 per cent of the total, as it overhauled staffing requirements.

Meanwhile, responsibilities among senior executives have been in a fairly fluid state. Mr Maschullat formally took up the reins of the investment banking division at the beginning of 1992, succeeding Mr Joseph Fogg, a veteran Wall Street dealmaker who quit after failing to secure a board seat. In mid-June, the newly-installed division head announced that Mr Bruce Fiedorek, formerly head of M&A would take charge of a wider "financing and strategic services" group.

If the persistent management changes have derived partly from departures and the change in workload, they also owe a good deal to Morgan Stanley's determination to build up its international business. Globalisation is almost an article of faith at the bank – the theory being that if corporations become increasingly international in their scope, their demand for investment banking services will follow a similar trend. Morgan Stanley draws about half of its $2.8bn revenues from outside the US and Mr Richard Fisher, chairman, has suggested that the proportion could increase to about two thirds. Extensive branch offices range from Milan to Toronto and additions, in Europe and Asia, are likely in the near future.

Morgan Stinley admits that the task of managing a worldwide personnel – in particular, deciding how much responsibility to devolve outside the US – is not always easy. In March, the bank appeared to rethink its approach, although the change is described as evolutionary rather than revolutionary. It set up a new operating committee under the charge of Mr John Mack, head of its fixed income division, to oversee day-to-day operations and to handle co-ordination between divisions. As part of the changes, it shifted four managing directors from New York to London and Tokyo – effectively running the group's worldwide government securities business from the UK.

Finally, although underwriting has been a mainstay of profits, and the bank's earnings record is one of the most commendable on Wall Street, it should not be assumed that everything has been plain sailing on the new issue side. Although Morgan Stanley was third among the Wall Street houses in terms of underwriting earnings last year, it has been noted that the bank ranked only seventh for all common stock offerings and had a similar placing for initial public offerings. In the first quarter of 1992, when a flood of new issues descended, Morgan Stanley also came in seventh in terms of amounts raised from all domestic issues, down from fifth place in the first quarter of 1991.

As for current trends, Mr Matshullat, like any banker seeking business, is the eternal optimist. Given the amount of equity which was retired during the 1980s he reasons that the stream of issues will continue, albeit with temporary fluctuations to allow for market digestion.

Nikki Tait, New York